FINANCIAL TIMES



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Maiden flight Boeing pins its hopes on the 777



Robots at work Reaching a little further



New Zealand Political system gets new rules



Today's surveys

Lebanon Foreign exchanges Separate sections

TUESDAY JUNE 6 1995

Berlusconi faces TV blackout over poll defiance



they persist in their defiance of Italy's media watch-dog commission. The networks are refusing to carry 13 publicity slots ordered by the commission to balance the coverage in the run-up to Sunday's three key referendums on the future of commercial television. Mr Berlusconi risks Iosing two of his three channels if the vote goes against

The three television

channels of Silvio Berlus-

coni (left), media mag-

nate turned politician

risk a black-out today if

him. Page 16 **Drive to end EU barriers:** Mario Monti, European Commissioner responsible for the internal market, will today urge member states to remove barriers in public procurement and insur-

ance in the European Union. Page 16 Ricoh shifts work to Talwan: Ricoh, Japanese maker of imaging equipment, is shifting design work for advanced cameras to Taiwan in a move that highlights the impact of the strong yen on Jap-

anese manufacturers. Page 16 Boeing predicts low orders: Orders for. aircraft will remain subdued well into the next century, a market forecast by Boeing of the US says. Page 8; A revolution rolls out, Page 15

Brittan anxious over US-Japan trade: European trade commissioner Sir Leon Brittan warned the US and Japan not to conclude trada deals which would leave Europe out in the cold.

Ladbroke sells US property for \$163m: Hotels and betting group Ladbroke reduced its property portfolio by a fifth with the sale of the Bay olony Corporate Center in Boston, Massachusetts for \$169m. Page 22

India's top bank faunches share offer: India's leading financial institution, the Industrial Development Bank of India, launched the country's biggest public share offering with an issue designed to raise Rs23.7bn (\$754m). Page 17

BAA expects one off cut in reserves:

Privatised UK airports group BAA said a new accounting practice for deferred corporation tax could result in a one off reduction in its reserves of up to £600m (\$942m). The group recorded a 14 per cent increase in annual pre-tax profits to £366m. Page 17: Lex, Page 16

Anderson takes second place in league: third to second place in the UK's accountancy table when it announced fee results for 1994-95 of £539m. (\$846m). Page 22

New chief for Kmart: Troubled US retailing group Kmart appointed Floyd Hall as chief executive. Mr Hall, 57, once worked for Anglo-French financier Sir James Goldsmith. Page 17

Australia's foreign debt rises: Australia's net foreign debt increased by A\$3.7bn (\$2.7bn) to A\$166.9bn in the March quarter, a reversal of a trend in previous quarters, when it appeared to be

Nigeria charges 23 with plotting coup: Five civilians and 18 members of the armed forces went on trial in Lagos on charges of plotting to overthrow Nigeria's military government. They could face execution if found guilty.

Likud party faces spift: Israel's rightwing opposition Likud party went ahead with a controressial convention on electoral rules despite threats from a senior Likud leader that it would provoke a damaging split. Page 4

ILO faces budget crisis: The International Labour Organisation begins its annual conference today under the shadow of a budget crisis precipitated by the slump in the value of the dollar and threats by the US Congress to cut contributions to the United Nations body. Page 4

New 10,000-metres record: Ethiopia's Haile Gebreselassie set a world record for the 10,000metres with a time of 28min 43.58sec, beating the previous best by nearly nine seconds at the Adriaan Paulen memorial meeting in the Netherlands.

Correction: We reported in this column yesterday that an army officer was sentenced to death by a court in Tunis for the killing of Algerian president Mohamed Boudist in fact the court sat in Algiers. We apologise for our error.

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Bid aimed at countering Microsoft's dominance of software market

IBM offers \$3.3bn for Lotus

By Louise Kehoe in San Francisco

International Business Machines yesterday launched an unsolicited \$3.3bn cash takeover bid for Lotus Development, a leading personal computer software company. The move is intended to counter the growing dominance of Microsoft, the world's largest software company.

IBM's primary interest in acquiring Lotus appears to be Lotus Notes, a program that enables teams of workers to collaborate, communicating via electronic mail and sharing documents over computer networks.

Mr Lou Gerstner, IBM's chairman and chief executive, said: "Our goal is to accelerate the creation of a truly open, scalable [adaptable to systems of any size] collaborative computing environment so people can work and

worsened, but "it's bard to make

China bad demanded that

US. "In Sino-US relations, we

call for a reduction of trouble,

but what the US has done is con-

as part of "one China. The ques-

tion of Taiwan is the most

Taiwan," he said.

Mr Qian also:

Chinese market.

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stantly to increase trouble."

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communicate across enterprises and across corporate and national borders."

IBM also, however, needs to establish a base of software applications for its OS/2 Warp personal computer operating system. It has been struggling to gain a greater foothold in the operating system market, but has so far failed to dent the dominance of Microsoft's Windows.

months' about a possible merger. "We wanted to have a negotiated discussion with Lotus as soon as

possible."

IBM said it had been in talks with Lotus "for over five transaction," Mr Gerstner said, but Lotus was unwilling to proceed. "We hope to have such a

Lotus expressed surprise at the IBM announcement, but did not rule out an agreement to support the offer. IBM said it would offer \$60 per Lotus share, a premium

of 85 per cent over Friday's clos-ing price of \$32½. The shares soared on news of the hid to trade at \$60% in mid-session.

The bid comes as the PC industry is poised for the introduction, in August, of Windows 95, a new version of Microsoft Windows that is expected to match the fea-

Editorial Comment......Page 15 ...Page 16 The risks of adopting the Lotus position.... ---Page 17

tures and performance of OS/2. IBM is believed to have invested over \$2bn in the development and promotion of OS/2.

Mr Gerstner said, however, that IBM wanted Lotus's software to run on all types of computers and that the company's strategy for OS/2 was unrelated to the proposed acquisition. Lotus said: "The sudden IBM announcement is particularly surprising in light of discussions and negotiations on contracts and joint development that have been under discussion between the two companies for several months." It said it would confer with legal and financial advisers "and then take any and all appropriate action to preserve and pro-mote the vital best interests of

this company". Mr Gerstner said IBM did not expect any anti-trust issues arising from the proposed acquisition. The bid appears unlikely to face anti-trust objections because neither IBM nor Lotus holds a dominant share of any specific segment of the PC software market. US Justice Department objections on these grounds led Microsoft to abandon its \$2bn plan to acquire Intuit last month . A

potential barrier to the deal is Lotus's "poison pill" takeover defence. IBM said it had started a legal action to prevent such an anti-takeover strategy.

IBM said it would pay for the acquisition from its \$10bn cash holdings. It plans to take a "significant" one-time, non-cash charge against its earnings when the deal closes. The charge would have a significant effect on net earnings for the year.

Industry analysts said it would be critical for IBM to marshal the support of Lotus employees if the takeover was to succeed. IBM said it intended to keep Lotus intact and that the company would continue to be managed from Cambridge, Massachusetts.

"Lotus would stay a separate company and we expect and hope that it would be run by Lotus's current management team," Mr

and US closer to liberating air travel

By Michael Skapinker in London

The UK and the US said yesterday they had agreed moves towards liberating air services

between the two countries.

The agreement falls sbort of the "open skies" deals the US is negotiating with other European countries but is seen by both sides as the best that can be achieved at present.

The two governments said they had arranged to begin negotia-ting a more extensive liberalisation of air services. Among the subjects expected to be discussed is greater access for US airlines to Heathrow airport, Lon-

Mr Brian Mawhinney, UK transport secretary, said: "The liberalisation process will not stop bere. We bave agreed to start work immediately on the next stage of negotiations with the aim of opening up further opportunities.

Yesterday's agreement gives UK airlines access to US government contracts, previously prohibited under the "fly America" policy. This required US public servants to use US airlines

The new agreement allows UK carriers to bid for US government contracts on five routes in co-operation with a US partner. The routes are between London and Washington, Baltimore, Philadelphia, San Francisco and Tampa.

The agreement also allows Britsh Airways to increase its service from Heathrow to Philadelphia from once to twice daily. BA has already started operating a second Philadelphia flight, but yesterday's agreement lifts any

BA has said the second Philadelphia service would provide better connections with flights offered by USAir. In which BA has a 34.6 per cent stake.

In return, United Airlines has won the right to operate a service from its bome base of Chicago to Heathrow. United said yesterday it would need to fulfil a number of regulatory requirements before it could start the service hut hoped to announce a date for

Continued on Page 16

US accused by China of 'constantly' causing trouble By Tony Walker and Quentin Peel in Beijing China yesterday accused Washington of "constantly" causing trouble in Sino-US relations, and warned of possible further retaliation over this week's visit to the US_by Taiwan's president Lee Teng-hui. Mr. Qlan Qichen, China's for-eign minister, said China would "watch closely" Washington's handling of Mr Lee's unofficial visif. He indicated Chinese action would be governed by the reception accorded Mr Lee. He did not rule out China penalising US business if the row

that western powers should avoid

getting drawn into the Bosnian

Mr Kozyrev is expected to spell out Russia's reservations about

the 10,000 extra troops which

western nations are sending to

Bosnia when ha meets Mr John Major, the UK prime minister,

A spokesman for President

Boris Yeltsin said yesterday that

Russia was prepared to help put pressure on the Serbs, but by

only". Russia has not objected to

the extra western troops as such, hut it is expected to bold Britain

to its promise that the expanding

western force in Bosnia will not

become a fighting ally of the Bos-

Mr Kozyrev said before leaving

for London that he wanted to dis-

cuss ways of strengthening the

UN force in Bosnia without

changing its bumanitarian role

is how to strengthen the opera-

tion within its present mandate

in the framework of the UN pro-

UN officials have said the rein-

forcements agreed by western

nations over the weekend would

bring the UN mission to a level

Continued on Page 16

What we are eager to discuss

nian Moslems.

or mandate.

cedure," he said.

conflict as combatants.

president, was reported last night to have secured the agreement of the Bosnian Serbs to ralease more than 250 UN peacekeepers whom they are holding hostage.

Sino-US relations have been bedevilled in the past year by disputes over intellectual property rights violations, human rights questions and Taiwan.

Mr Qian warned the White
House not to back away from agreements recognising Taiwan important issue in Sino-US relations because all three Sino-US

 Urged peaceful resolution of problems in former Yugoslavia. Defended China's agreement to supply nuclear power plants outside Pale.

related to the question of • Called for a delay in establishing a new supreme court in Hong Kong until China takes were being gathered from their over in 1997, providing a possi-

ation effort.

joint communiqués directly arriving in Pale similar to those used in the earlier release of 121 peacekeepers. Officials at Bosnian Serb headquarters told Associated Press that hostages

ble solution to the most conten-Earlier, two senior envoys from tions issue still to be resolved Greece - Mr Gerasimos Arsenis. with Britain over the transfer of defence minister, and Mr Karolos Called on Europe to compete Papoulias, foreign minister – arrived in Pale as part of a medimore aggressively with Japan and the US for a share of the

Mr Arsenis said before leaving that he saw a "basis for negotiation" over the hostages, who were seized by the Bosnian Serbs after two air strikes by Nato against an ammunition depot

China urges delay in setting up HK Supreme Court, Page 6 | macy over the Bosmia crisis, Mr

MERCURY

Chancellor Helmut Kohl of Germany, left, King Hussein and

Jordan, centre, and Israeli PM Yitzhak Rabin relax in a tent on the

Israeli-Jordanian border before starting talks on economic pro-

jects and the Mideast peace process. Report, Page 4

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European Opportunities Fund	lst	2nd	
North American Opportunities Fund	1st	1st	

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Washington rescind permission for Mr Lee to visit the US for a		
class reunion at Cornell Univer- sity. He is due to arrive tomor- row, and the US has said there is no chance of the visa being with- drawn.	Bosnian S	erbs may
Beijing's reaction risks causing the most serious rupture in Sino-US relations since ties were normalised in 1979. China has	be poised	to free
already cancelled several higi-level visits to the US and suspended Sino-US co-operation in halting the spread of missile	UN peace	keepers
technology. Mr Qian, expressed exaspera- tion over difficulties with the US. "In Sino-US relations, we	By Our Foreign Staff Mr Slobodan Milosevic, Serbian	Andrei Kozyrev, Russian forei minister, arrives in London too with a message from the Krem

The promise was raported shortly after Mr Jovica Stanisic, Serbia's powerful security police chief, arrived in Pale, the Bos-man Serb stronghold, for talks on the hostage crisis. Mr Stanisio was also heavily involved in securing the release of an initial batch of hostages last

Witnesses saw four vehicles places of custody in preparation for departure.

In separate high-level diplo-

CONTENTS

FT/SP-A Wat Indice

LOHDON - PARIS - FRANKFURT - STOCKHOLM - MEH YORK - LOS ANGELES - TOKYO

O THE FINANCIAL TIMES LIMITED 1995 No 32,694 Week No 23

Letters .

The Greek central bank bas taken a vital step towards modernising the Athens capital market by launching a computerised system for trading in treasury bills, the government's main instrument for financing the country's swol-

The government has to raise between Dr150bn (\$640m) and Dr500bn every month to roll over existing debt and cover additional borrowing needs. largely the result of generous spending policies and low tax revenues in the 1980s.

Greece's public debt has soared to more than 115 per cent of gross domestic product, far in excess of the Maastrict

target.
The government bopes the computerised book entry system will reduce debt financing costs by promoting a secondary market for government bonds. Run by the Bank of Greece it will replace a paperbased system which has inhibited secondary trading, partly because of long delays in printing treasury bills.

A senior central bank official said: "There is growing demand for treasury bills in the secondary market, but it is difficult to nieet this through an informal trading system based on paper. The threemonth bill wasn't printed up until the day before it expired, while it took seven or eight months before the 12-month bill was ready for delivery."

In spite of fiscal reforms Greece will be unable to trim its debt to 60 per cent of GDP by 1999, in accordance with the Maastricht requirements for participating in European monetary union.

"We'll make some progress on reducing the overall debt as budget surpluses increase. But a more sophisticated and efficient bond market will also help bring down the cost of debt financing," says a govern-ment economic adviser.

The government bas little difficulty in raising the funds required because it sets high interest rates for treasury bills, which are still tax-free in contrast with bank deposits. Large amounts of money earned in Greece's flourishing black economy are also funnelled into treasury bills in what one analyst called "a legitimised form of money-laundering."

High real interest rates of about 6 per cent on the L2month treasury bill, the most popular debt instrument, also attract investors from abroad. Greece's foreign exchange reserves bave doubled to almost \$16bn over the past

The central bank's new trading system was introduced at last week's sale of treasury bills, which raised more than Dr400bn, considerably more than the Dr165bn needed to renew existing debt. "It will take a few months to

be accepted, because some Greek investors are still suspicious of owning a bond they can't hold in their hand. But the volume of trading will pick up quickly as international investors can now get into the market on a much bigger scale," said one bond trader. High demand for recent treasury bill issues bas left the government with a Drl.500bn reserve, the largest ever recorded.

With the computerised trading system in place and a cusbion of funds in hand, the finance ministry is now prepar-ing to abandon administered interest rates and bold Greece's first auction of treasury bills. provisionally set for

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Model described in Ray C. Fair, Testing Macroet

Computer | New higher credit rating buoys international push for funds

Poland bangs investment drum

By Anthony Robinson

Buoyed by an inveatment grade credit rating last week from Moody's, the internabonal credit agency, a Polish investment promotion road show will arrive in Hong Kong next week. It will be the first port of call in a swing through Asia and Europe before a grand finale in New York later this month.

Behind the razzamataz, choreographed by J P Morgan, the New York investment bankers and beaded by Mr Grzegorz Kolodko, the finance minister, the road sbow will attempt to drum up investor interest in Poland's first Eurobond issue, a relatively modest \$200m. A central selling point will be the transformation of the country's external accounts following two large debt reduction agreements and a sharp exports rise.

The combination of debt reduction, rapid economic growtb and sharply higher export revenues have trans-formed Poland's capacity to repay its lowered debt, while the investment grade credit rating has freed it to tap new sources of private capital around the world, including pension funds and other insti-

Poland's progress from 1980s left a sour taste for some in a financial pariah to an invest-region where up to now only

Government to relax its grip on state companies

Poland is to press ahead with long-delayed reforms of the central administration and reduce government control over state-owned companies, writes Christopher Bobinski. Mr Marek Pol, the minister responsible for bureancratic reform, said yesterday that implementation would begin next year with the creation of new ministries of the economy, and nf finance and privatisation, and a separate committee for European integration.

The cabinet will consider the proposed changes next week and the first draft laws are to be sent to parliament later this month. The plans foresee abolition of the ministries for privatisation, industry, foreign trade and construction, as well as the central planning office. The changes, strongly backed by Mr

mere five years, and some

early political arm-twisting by the formidable Polish lobby in

the US congress and elsewhere.

But the time-lag between the

conclusion of Warsaw's Brady-

style debt reduction agreement

with commercial banks in

March 1994 and last week's rat-

ing was even more spectacu-

larly brief, It took Mexico 11

Jozef Oleksy, the prime minister, would transfer control over some 900 state-owned enterprises from the government to local administrations, leaving only 100 strategic companies under central ministries. At present provincial governors are responsible for three quarters of the 4,000 state-owned companies. The government however, appears to be

back-tracking on earlier proposals to create a separate treasury to administer state assets. Mr Pol said a decision bad yet to be taken but that supervisory functions could also be conducted by the finance and privatisation ministry. The latter ministry estimates that the state still owns assets worth 69bn zlotys (\$30bn), including minority holdings in listed companies and partnerships with foreign investors.

ment grade credit rating took a the Czech Republic enjoys an investment grade rating from all three rating agencies. Even Slovakia has a Polish-style rating from Moody's, while Hungary languishes at sub-investment grade, except in Japan where an investment grade rating has opened the way for a succession of Samurai bond issues in recent years.

Hungary's exclusion from western agencies' investment grade rankings is irritating for Hungarians. Over three abroad to finance modernisa-

Unlike Poland, whose Communist-era debt was borrowed mainly from official credit sources, about 80 per cent of Hungary's \$30bn gross debt has been borrowed from private investors, including many Japanese. Their confidence has been built up over decades repaid both capital and interest on the nail

Budapest's payments record also helped ensure that, over central Europe - over \$8bn. some 60 per cent of the total.

Nevertheless, Standard & Poor's downgraded its foreign currency debt ontlook from stable to negative in February. Ironically, that action was published on the same day that Mr Gyula Horn, the prime minister, appointed Mr Gyorgy Suranyi head of the National Bank and the equally highly regarded Mr Lajos Bokros as finance minister. Since then, Hungary bas devalued and introduced the first of a tough two-part austerity package of

spending cuts, tax rises and

ultimately self-financing social

security reforms. Today, Mr Horn, flanked by his top officials, begins a week of meetings with US politicians and IMF officials. The IMF froze Hungary's last standby loan in 1992 when Budapest overshot budget deficit and other targets. With spending now in check and credibility largely restored, Mr Horn bopes to return with the pros pect of a full three-year IMF standby loan this year.

But Hungary's high profile US visit is also part of a wider strategy aimed at gaining a coveted investment grade rating, for It is this which makes it possible to tap the pension funds and the other institutional investors whom the Poles are setting out to woo

EUROPEAN NEWS DIGEST

Moscow focus on social sector

The Russian government will concentrate on financing the social welfare sector in the second half of the year in an attempt to soften the pain of economic transformation. Mr Anatoly Chubais, first deputy prime minister, said yesterday.

But he emphasised the spending would come from unspecified additional sources and would not jeopardise government finances. Unemployment has been rising in recent months and thousands of workers have not been paid as the severe monetary squeeze in Russia has tightened. The World Bank and other international financial institutions have been encouraging the government to strengthen the social safety net to cope with the casualties of economic reform.

Mr Chubais said the economy was performing well this year Inflation was coming under control and industrial production. was showing signs of improvement. "Russia has never been closer to real economic revival," he said yesterday. Mr Oleg Davydov, the minister in charge of Russia's

external debt negotiations, said the Paris Club of official creditors was "euphoric" about the improvements in the economy and had agreed to revise the interest payment. schedule, meaning Russia would only pay \$1.1bn this John Thornhill, Moscow

Chechen stronghold captured

Russian forces pressed their offensive against Chechen rebels yesterday after capturing the mountain stronghold of Vedeno, beadquarters of the rebel leader, Gen Dzhokhar Dudayev. 40km sonth-east of the capital, Grozny. But separatists, who shot down a Russian attack helicopter, said tha loss would only make them alter their tactics. A rebel commander was quoted by Itar-Tass news agency as saying that rebel units had regrouped and were switching to partisan warfare.

A Russian officer in the territory said the capture of Vedeno marked a significant change in the balance of forces. Gen Dudayev's fighters had been forced back 7km-10km south of the town, be claimed. Vedeno is located in a thickly wooded gorge more than 8,000 feet above sea level. It has particular historic importance for Chechens since it was the last stronghold of the 19th century Caucasian hero Imam Shamil, who held off the armies of the expanding Russia Empire for more than 30 years.

Russian troops, sent into the north Caucasus territory last December to crush its three-year independence bid, have seized plains in central and northern Chechnya. Vedeno was their first major gain in rebel-controlled mountains to the

Kuchma pushes for referendum



Ukraine's President Leonid Kuchma (left) tried yesterday to push ahead with a referendum on June 28 on public confidence in parliament and in himself. He issued a decree invalidating, be claimed, parliament's veto of the proposed referendum last Thursday. Parliament is afraid of the president gaining a stronger mandate 👵 to implement radical economic and constitutional changes. President and parliament, whose strained relations are governed by an outdated constitution, have been at odds over the

economic reform programme backed by the International Monetary Fund and fayoured by Mr Kuchma. A Gallub released yesterday suggested the president would win a

non-binding referendum overwhelmingly. The government, meanwhile, said \$3.1bn in IMF support had belped lower inflation to 4.6 per cent last month from 5.8 per cent in April. Mr Kuchma also said Ukraine should introduce its new currency, the hryvnia, as early as September. It will replace the karbovanets, which has stabilised this year, trading at 150,000 to the dollar since February. The president told farmers in central Ukraine the government wanted to build up a \$1.5bn stabilisation fund before introducing the new currency. The karbovanets was introduced in 1992 at parity with the Russian rouble but quickly devalued because of a surge in inflation in 1993-94. Matthew Kaminski, Kiev

Romanian strike collapses

A three-day-old strike by Romanian energy workers petered out yesterday after the government threatened to sack them, but trade union leaders said tension remained high. "It appears that the protest has ended. According to my information, most of the workers returned to work," said Mr Vasile Suta, executive leader of the Energetica union On Friday, some 37,000 employees at 33 of the Renel RA

electricity authority's 37 power stations refused to start their shifts, complaining about low pay and a government decision to link future pay rises to productivity. Railway workers called off a similar stoppage yesterday

after the management agreed to a 15 per cent pay rise and compensation for planned redundancies. The government, meanwhile, announced a 15 per cent rise in the price of electricity, natural gas and coal. It blamed an

increase in the price of equipment used to produce electricity and extract natural gas and coal. Reuter and AP, Buchares

Electricity chief suspended Mr Franco Viezzoli, chairman of Enel, the ftalian state

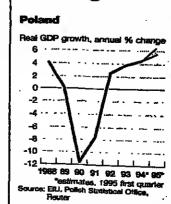
electricity authority, has been suspended for two months from his managerial role. The move – by a Milan judge – followed a decision last month to send Mr Viezzoli for trial, along with 160 other businessmen, politicians and civil servants, on charges of corruption relating to bribes reportedly worth some L100bn (£38.4m) paid on Enel contracts.

Mr Viezzoll's lawyers immediately challenged the ban. But-

this latest judicial decision is likely to put further pressure of the government to address the problems of managing the electricity giant which was due to be privatised this year.

ECONOMIC WATCH

Polish growth at 5.5-6.5%



between 5.5 and 6.5 per cent in the first quarter of the year compared to the same period in 1994, the country's central bank says in a report to parliament. This compa with the 7 per cent figure estimated by the Gdansk-based Independent Institute for the National Economy, but is in line with the government's assur that the economy will grow this year by 5-6 per cent-According to the planning office gross domestic product growth.

The Polish economy grew by

which reached 5 per cent in 1994, will be between 5.3 and 5.5 per cent next year. This growth prediction is being used as the basis for planning next year's budget which assumes an inflation rate of 17 per cent and that the deficit will reach 2.8 per cent of GDP. The central planning office expects inflation this year to reach 22 per cent; the budget deficit has been fixed at 3.2 per cent of GDP.

Christopher Bobinski, Warsul Christopher Bobinski, Warson

years before it was able to live down its own Brady-style debt the past five years. Hungary attracted the lion's share of write-down in 1981 and obtain decades the country's central a similar rating from Moody's. foreign direct investment into But Poland's new rating has bankers steadily borrowed

Local elections give Turkish PM a lift



By John Barham in Ankara

strong performance hy Mrs Tansu Ciller, Turkey's prime minister, in elections in two provinces at the weekend is expected to give a boost to ber struggling coalition government.

Her centre-right True Path party (DYP) took 40 per cent of the vote, well ahead of the mainstream conservative opposition. The Islamists of the Refah party (RP), one of Turkey's fastest-growing parties, could capture only three mayoralties.

Although the elections were limited, Mrs Ciller turned them into a referendum on her leadership. Just 88,500 people voted in two provinces and 32 towns and villages scattered throughout the interior of Turkey. She mobilised considerable government patron-age to support ber candidates and personally campaigned on their behalf. The results came as a relief to party officials. The DYP's npinion poll rat-

per cent, mainly because of Mrs Ciller's along the shores of the Mediterranean. oor economic record. Turkey plunged into a severe economic crisis last year. Mrs Ciller's aides say sbe will now move to force a long-delayed package of buman rights and economic reform

legislation through parliament to clinch a customs union agreement with the European Union. This was agreed in March hut must be ratified by the European parliament in the autumn. The Strasbourg assembly says it will not do so unless the Turkish parliament amends the constitution and changes anti-terrorism laws that severely restrict basic rights.

The European Commission is also demanding a series of laws to harmonise EU and Turkish economic regulations before it can give its final approval to the customs union, which is due to come into force next January 1. Both sides see the accord as a way of strengthening Turkey's economy and secular democratic system at a time

However, the customs union, Turkey's single most important foreign policy objective, has become bostage to domestic politics. DYP rebels and their allles in opposition parties have blocked Mrs Ciller's efforts to adopt the reforms. The prime minister's enemies realise the customs union would strengthen her grip over the party and may belp ber win a general election. which must be called in the next 18 months.

Markets reacted positively yesterday, with the Istanbul stock exchange index gaining 4.2 per cent. Investors were heartened by improved prospects for the customs union. They also believe that pressure has eased for a snap election, which would disrupt the economy. Improving economic results also drove the market ahead. Inflation fell to 78.4 per cent in the 12 months to May, while industrial production rose 14.2 per cent in April, ending eight

Mr Andris Piebalgs, was forced out last week after the Baltija

ble and dishonest and, in some

cases, entirely corrupt, that the

use of civilised supervision

methods has been a mistake,"

Mr Repse told Diena, Riga's biggest daily paper. The central bank is expected

to clamp down: already only 16

larger banks, audited by west-

ern accountants, are allowed to

accept individual deposits. It

"Now it's important that peo-

ple don't lose trust in the bank-

investors. Latvian banking

already appears to be governed

bank, you close a contract and tha obligations are clear," said

Mr Abi Zhiv, manager of

Akmar Agency, a Riga-based

forwarding, sbipping and

trucking operations. "Here you can close a deal and averything

Some western banks are

planning to move in and capi-

talise on this mistrust. Société

General, which closed its three

branches in Riga in 1917, plans

to re-open a branch in July ori-

ented to corporate and interna-

the crisis a belated growing

pain, which neighbouring Estonia experienced in 1992 when eight banks closed. Mr

Teodoras Tverijonas, president of the bank association, said

the "corrective period" should

leave only 15-20 banks, down

from 48 today. Ha added the stronger banks are also count-

ing on privatisation, stalled the

past three years, to move for-ward - enabling them to diver-

sify into manufacturing after relying on commercial busi-

Then Riga can start to work to earn the "Baltic Zurich"

label, now used sardonically.

"To be a financial centre you

need a track record and a lot of

Many Latvian bankers call

can change in a month.

To many local and foreign

With a German or a British

ing system.

"Our banks are so irresponsi-

scandal broke.

Matthew Kaminski on the collapse of a bank in a would-be ex-Soviet financial centre

R iga's thriving old town reflects Latvia's ambition to become an ex-Soviet Switzerland. But the closure last month of Banka Baltija, the country's largest commercial bank which belped underwrite the capital's renaissance, points to a harsber real-

The crisis has been a painful, if necessary, wake-up call for Latvia's young bankers, regulators and customers after the sector mushroomed in the last three years, peeking at 63 banks in 1993 for a country of only 2.7m people and accounting for 63 per cent of Latvia's gross domestic product last

Eleven banks folded in the past year, but Baltija is doing the most damage: 500,000 individuals and 20,000 businesses held Lat186m (\$380m) at Raltija, about 40 per cent of all bank deposits. The bank last week partly resumed operations, but the accounts will remain frozen until Coopers & Lybrand, the UK anditor, finishes poring over the books and the bank re-opens,

perhaps later this month. On May 26 the government, which ignored previous fail-ures, took full control over Baltija, installed new management, and promised to guarantee individual accounts. The fate of Baltija's interbank

'Latvian Zurich' turns into banking Las Vegas

loans and business accounts remains dubious. The bail-out, estimated to

cost up to Lat100m, threatens to stoke inflation and widen the budget deficit. The collapse of the country's biggest bank puts a strain on liquidity across the economy and casts doubt on Latvia's hard fought stability.

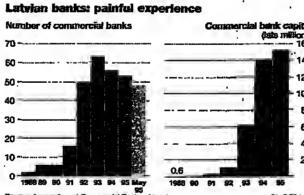
The sector is frightfully big," said Mr Ardo Hansson of the Stockholm School of Economics. "Baltija's collapse reveals the downside risk of building an economy on bank-ing" - to the detriment of exporters hurt by the lat, a currency steadily appreciating on the strength of large capital inflows, mostly from

At first, banking was manna With good commercial ports and the only oil pipeline link from the Siberian steppes to the Baltic, Latvia saw its future in financial services: liberal banking rules, no restrictions on capital flows and an internally convertible currency attracted billions of dollars

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from Russia and other former Soviet republics. Language and old Soviet-era contacts promoted business.

Europe, and we bave a European-like banking system," said Mr Einars Repse, central bank governor.

Few Latvian bankers deny an almost total dependence on Russian capital, mostly from trade financing. Most banks have large Russian sharehold-

"Russia has crazy currency regulations," said Mr Dzintars Pelchergs, a 25-year-old first vice-president of Lain Banka, which barely survived a run on deposits in March prompted by the arrest of two managers on fraud charges, later dropped. "It's fluid, fast money, and often only stays in Latvia for a

The successful Parex Bank, Latvia's aecond-largest bank which turned a Lat2.4m profit last year and boasts Lat9.2m in share capital, opened the Soviet Union's first foreign exchange kiosk in 1989. Today a branch in Moscow and a representative office in Dnipo-petrovsk, in Ukraine's industrial heartland, helps put half Parex's business outside Latvia and commit 36 per cent of all loans last year to transit

Ms Anda Stepanovicha, an analyst at Parex, said transferring soft currencies - such as the Russian rouble and Ukrainian karbovanets - helps clients, many of whom trade metals and oil do business in a

has also asked parliament to pass banking laws to rationalise the financial system. "In the old days we held all our money in our pockets," said Ms Vita Pilsuma, a mem-ber of the central bank's board.

difficult environment The post-Soviet trade boom underpriced commodities also fed an increase in so called "pocket banks", opened by and in some cases serving a single shareholder, which inflated their assets by circular transactions. One such was Latintrade bank, closed by the central bank this March when it discovered Latintrade was 95

per cent committed to a single borrower. Without the support of strong courts, adequate laws and good supervision, Latvia's banking system has been open

to misus "It's all a case of running before learning to walk," a World Bank official said, "Latvia should have established better controls before trying to attract capital." He said the signs that Baltija

bad expanded too quickly, offered excessively high inter-est rates, and gave out bad loans were "ohvious" for months. Tha central bank, whose insistenca on western audits

for the larger institutions belped uncover fraud, has come under attack for not acting quickly enough. Baltija was allowed to accept deposits even after its liquidity problems came fully to light in Mr Repse, a young non-

banker respected for keeping the lat strong, last month acknowledged mistakes. A noconfidence motion against him failed to pass in parliament, although the finance minister.

expertise," sald Mr Kevin Phillips, chief financial officer at Deutsch Lettische Bank, founded in 1992 by, among otbers, Mr Anatoly Blik, a Sovietera basketball star with good contacts in Russia. "That takes

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JESDAY JUNE 6 14

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Union pledges determination to press for 6% increase in wages

Strike threat by German shop workers

An estimated 2.3m German retail workers are threatening to go on strike this week after union leaders rejected a 3.4 per cent pay offer.

Mr Hubert Gartz, the deputy chairman of the DAG union, one of two unions representing the retail trade, warned that the union would continue to press for a wage rise of 6 per cent and would resort to strikes if necessary. ...

"The ballots we have so far conducted in department stores and DIY stores in several Lander show a considerable willingness to go on strike," Mr Gartz said.

Various regional wage talks are expected to start again today while strikes and walkouts are expected in Baden-Württemberg and Thuringia,

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Several department storee and shops were hit by strikes at the weekend, but employers said that shoppers were barely affected because auxiliary staff

were used to keep shops open. The pay talks for the retail trade are one of the last of the big wage rounds conducted annually for each of the big branches of the German econ-

omy.
The benchmark for wage the engineering industry settled for a wage rise of around 3.8 per cent over two years, a deal which had to be pushed through with the first strike in the engineering industry since

However, retail trade employers are likely to argue that they cannot improve on their best offer because retail sales have remained weak even though other sectors of the German economy have made a surprisingly quick recovery from the country's worst postwar recession.

The BAG association which represents medium-sized retail outlets said retail sales in 1994 were less than those a year earlier - the first time in 30 years that sales have fallen on a year-to-year basis.

Kaufhof, one of the leading retail groups, last month reported a 43 per cent fall in 1994 net profits to DM137m (\$95m). Spending has remained stagnant, partly because of an effective wage freeze during last year's recession, and partly because of new taxes. Meanwhile, workers in the

east German retail trade said they would continue a strike begun last week and press for an 11 per cent pay rise with a commitment to match the wages earned by their west German counterparts by 2000. Employers have offered an 8.9 per cent pay rise.

Finland's new PM breaks Nordic mould

r Paavo Lipponen, the new Finnish prime minister, has r Paavo Lipponen, the new Finnish made it clear that his brand of Social Democracy represents a radical departure from the tra-

ditional Nordic model. Barely eight weeks into office he has announced big spending cuts, supported lower taxes, promoted more flexible labour markets, and put the responsibility for job creation firmly on small business and services, rather than the public sector and big industry.
"We are talking about a par-

adigm change," says Mr Lipponen in a rejection of the inflationary policies and devaluations on which Finland has relied to escape economic difficulty in the past.

The markets have loved it. The markka has risen progressively and long-term bond yields have fallen by a whole percentage point over the last wo months, narrowing the gap with German equivalent bonds to around two percentage

The strategy has been underpinned hy the creation of e five-party coalition government, which bolds 145 seats in the 200-seat parliament. A desire for consensus has led to the inclusion of the former communist Left Alliance and the Green party in the team, even though the Social Democrats would have had a comfortable majority if they had chosen only to work with the

Christopher Brown-Humes finds that Paavo Lipponen's pragmatic approach to politics and economics has proved a hit with markets



Pagvo Lipponen: government based on common thinking

Conservatives and the Swedish People's party.

This is e government based on common thinking not trading," Mr Lipponen stresses. He says he was only prepared to bring the Left Alliance into power after the party had accepted the need to cut speoding by FM20bn (\$4.6bn) or 4 per cent of gross domestic product. over the next four years. But his move should also ocuter any left-wing revolt as the pain from the cuts, which target child and unemployment benefits among other measuree, starts to bite.

central to the government's main ambition to halve Finland's 18 per cent unemployment rate, the second highest in western Europe, because it is designed to get interest rates down and stimplate investment. The plan also aims to help Finland meet the criteria for European economic and monetary union and is matched by a determination to keep inflation low.

The ravages of the country's 1991-1993 recession, when GDP fell by 15 per cent, are reflected its among other measuree, starts to bite. today in a 5 per cent general government deficit and a public sector debt load of nearly 70



per cent, both of which fall outside Maastricht targets.

Yet conspicuous by its absence is any attempt to address the problems by fol-lowing Sweden, which has similar difficulties, in imposing hefty tax rises. Indeed the type of Social Democracy espoused by Mr Lipponen would be largely unrecognisable to the Swedish prime minister, Mr Ingvar Carleson, but it would certainly strike a chord with Mr Tony Blair, the British Labour party leader.

Pragmatism is the Lipponen watchword. It extends to the planned changes in labour market practices and to the emphasis on cutting taxes for

It is also to be found in plans to continue the privatisation programme of the former centre-right government of Mr Esko Aho. A big chunk of Neste, Finland's leading industrial group, will be sold off later this year if markets remain favourable, while offi-cials within the Trade and Industry Ministry indicate that up to a third of the shares in Imatran Voima, the country's main power group, could be sold within two years. Thie willingness to consider even a partial sell-off of strategic state assets again distinguishes the approach of Finland's Social Democrats from Sweden's.

Much is going Mr Lipponen'a way with the economy growing by up to 6 per cent this year, inflation at 2 per cent, a boom in the export sector and e surge in industrial investment.

Wages, however, remain a sensitive area after big increases in the latest annual pay round, which is why Mr Lippooen favours an incomes policy. "We have to ensure that increases in profits and earnings in the export sector do not spread inflation into the economy," he says.

Mr Lipponen, a former journalist and a specialist in internetional affairs, could yet regret committing himself to e helving of unemployment within his term in office. He could also find the trade unions, which have so far eccepted his programme with remerkable equanimity. becoming restive, while a Left Alliance defection from the government would surprise no-

But Mr Lipponen is stressing the importance of a common endeavour by politicians, unions, employers and society at large to overcome the country's difficulties. "We are at a very crucial stage in our eco-nomic history. We have a real chance to recover from the crisis and create a strong economy. We must not lose it.

Italy begins to prepare way for return to ERM

By Robert Graham in Rome

The government of Lamberto Dini has begun to prepare the way for Italy's eventual return to the European Exchange Rate Mechanism almost three years after the lira was forced to float by the September 1992 currency crisis.

The re-entry of the lira into the KRM is a central feature of the government's three-year macro-economic programme which was endorsed by the cabinet last Friday and outlined at a press conference yesterday by Mr Rainer Masera, the budget mints

In recent days the issue has begun to be discussed in an informal way with Italy's main EU partners. "No formal request has been made to our [EU] partners; but this is the hypothesis on which we are working," Mr Masera said yesterday.

Mr Dini, the prime minister, is committed to the idea, not least because renewed membership of the KRM provides strong external links that discipline domestic policies. This view is shared by most of the business community who recognise the free floating lira has brought short-term benefits at the cost of seri-

ous inflationary pressures. The 1996-98 macro economic programme's ontline document states: "The need for re-entry stems not merely from the institutional requirements for a currency to be inside the KRM for two years prior to proceeding to the third phase of monetary

It also comes from the conviction that re-entry will belp bring the lira's. parity and interest rates back to levels which reflect the true state of the

But despite the Dini government's enthusiasm for the lira to be readmitted, many economists still regard the idea as little more than a statement of good intentions. The same applies to the optimistic projections in the 1996-98 macro-economic programme which envisage cutting the public sector deficit from 9 per cent to 3 per cent by 1998.

It was notable last week that Mr Antonio Fazio, governor of the Bank of Italy, in his annual statement completely ignored the topic.

Mr Masera yesterday did not underestimate the problems along the path of re-entry. He said rejoining the ERM would be conditioned by three domestic elements: approval by parliament of the reform of the pensions system; endorsement of the 1996 auserity budget in the framework of the 199698 macro-economic programme; and substantial progress towards meeting the convergence criteria on inflation and the public sector deficit laid down in the Maastricht treaty. It was also important that delays were overcome in the programme of priva-

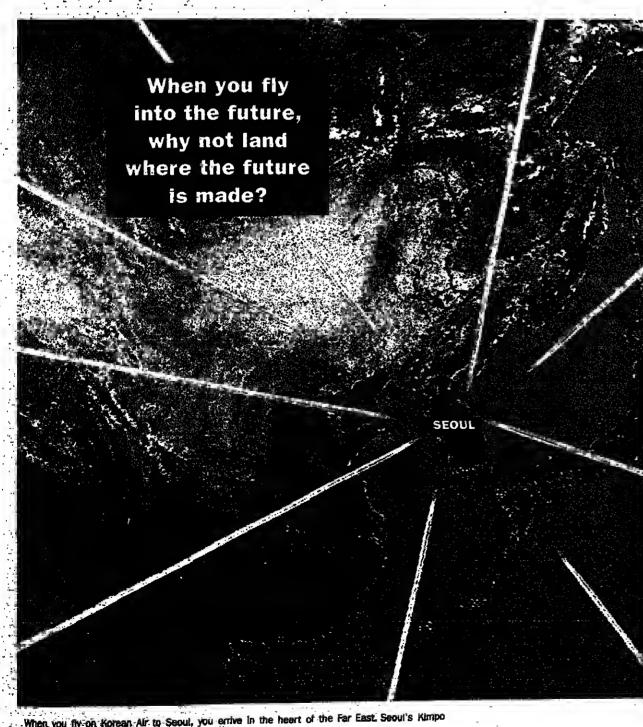
Approval for the pensions reform is now unlikely before the end of July and it is still uncertain bow parliament will amend the government's

Equally parliament is unlikely to approve the guidelines of the 1996-98 macro-economic programme before July. However, once approved the government can then formulate the

This means Italy will not be in a position to demonstrate it has started on the path towards complying with the elementary pre-requisites for reentry before the autumn. Until then Italy's partners are not expected to make any formal move.

In the meantime they bave let it be known that the crucial issue will be the parity of the lira. The Italian curncy's old floor against the D-Mark in the ERM was just below L770. Since leaving the ERM it has reached almost L1,200 and is now being traded at L1,150.

Two years ago, Italian officials talked of L950 being a reasonable parity against the German currency. is been adjusted more recently to a L1,050-1,100 band but neither levels would be easily acceptable to the Germans and French.









Israeli opposition Likud party likely to split

Israel's rightwing opposition Likud party went ahead with a controversial convention on electoral rules yesterday, despite threats from a senior Likud leader that it would provoke a damaging split and lead to the creation of a hreakaway political party.

Barring a last minnte compromise, Likud officials expect the party to split within 24 hours, with damaging consequences for the par-ty's electoral fortunes and its ability to present a united opposition

Mr David Levy, the influential former foreign minister in the last Likud government and representative of Sephardic or Oriental Jews who emigrated to Israel from North Africa, said last week that if the meeting went ahead it would force him and his supporters to quit the

The prospect of a split alarmed leaders of Likud, which was the traditional party of power in the 1980s. "If there is a separation, the Likud will suffer great damage in the next

wide portion of the Israeli public," Mr Meir Sheetrit, a Likud member of parliament and member of the Sephardic community, warned minutes before the meeting began. "It will be a bullet in the head."

At least 2,000 Likud central committee members met in Tel Aviv last night to decide what system to adopt for the selection of parliamentary candidates for November's general elections.

Mr Levy, who boycotted the meet ing, claims the primary system presented to the central committee hy Likud leader Benjamin Netannted to the central committee

yahu will marginalise the Sephardic community which makes up 80 per cent of Likud's electorate. He has unsuccessfully demanded that he and his supporters be guaranteed 40 per cent reserved places on Likud's parbamentary list rather than com-pete in first-past the post primaries.

The mood in Likud isn't what it used to be," Mr Levy said. "We are not resigning from the Likud, we are being pushed out. And, if as a result of these actions we will have to establish a new party, we will do

Mr Netanyahn's supporters say

Mr Levy, who lost the leadership battle in 1992, is trying to blackmall the party, overturn internal party democracy, restore ethnic politics and pursue a personal power battle against Mr Netanyahu. Senior Likud leaders say Mr Netanyahn has resigned himself to the split and calculated that the party will do better without the continual internal division Mr Levy has fostered since the leadership battle.

Mr Netanyahu, who is assured of a majority in the central committee, said last night the party should not give in to threats and ultimatums

manner with everybody accepting the majority decision_

Political experts say a Likud split will almost certainly harm the party. In Israel's complex coalition politics, small political parties can often emerge as the power brokers of future governmen

An opinion poll conducted last week showed that a new political party led by Mr Levy would win five of the 120 parliamentary seats, denying Likud an electoral victory over Labour and making Mr Levy a possible king maker.

Kohl promises cash to help Middle East peace

By Julian Ozanne

Chancellor Helmut Kohl yesterday pledged German and European financial support for water and regional economic projects designed to underpin Middle East peace, in a tripar-tite summit with the leaders of Israel and Jordan

Mr Kohl, accompanied by a German business delegation on a Middle East tour, called for joint ventures between German, Israeli and Jordanian companies to "breathe life into the peace process for the generations to come"

I think we should send a very clear and unequivocal message to the other parts of

the world... where blood is sbed." Mr Kohl told a joint news conference with Israeli prime minister Yitzhak Rabin and King Hussein of Jordan. Jordanian officials said Mr Kohl, who visited Egypt and Jordan over the weekend, sig-nalled support for \$600m (£382m) worth of water projects

critical to transforming the arid Jordan Valley. Projects being studied include several dams, desalination plants and pipelines to give Jordan access to more tban 150m cubic metres of water a year. A \$5m pipeline which will carry 30m cubic metres a year from the Sea of

Galilee to the 110km King

Abdullah canal irrigating the Jordan Valley is expected to be completed this month.

"I hope beyond this water project we will be ahle to intensify further the economic relations between the countries of the region and Europe, the member states of the European Union, and specifically between Germany and Israel."

Mr Kohl said, Today, Mr Kohl will meet Israeli political leaders. who are expected to lobby him for support for Israel's demands, which are blocking signature of an improved EU-Israel trade

Israeli officials said the new agreement would be the main

Kohl's response would determine the success of his visit to the Jewish state. Germany is one of Israel's main trading partners and last year Israel had a \$1.6bn trade deficit with Germany, which it hopes to reduce through the new trade association agreement. Israel's total trade deficit with the EU

in 1994 was \$7.4bn, excluding

diamonds. Israel's foreign ministry will also seek to change Germany's strong opposition to the establishment of a Middle East development bank capitalised at \$5bn. The bank, strongly supported by Israel, Jordan,

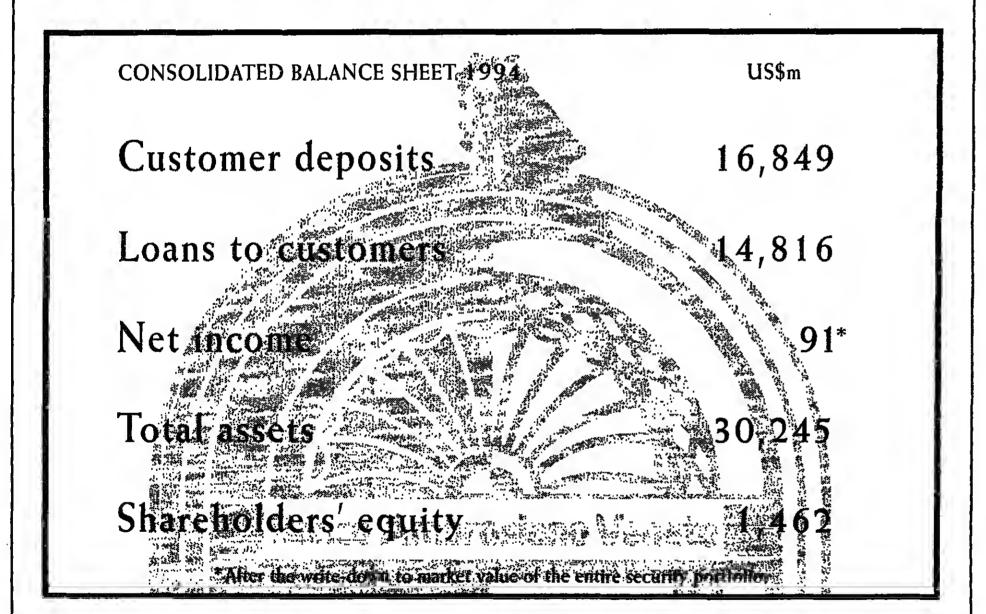
Egypt, the Palestinians,

item on the agenda and Mr Kohl's response would deter-has faced stiff European opposition and is expected to be discussed at the G7 summit in Canada next week

Volkswagen, represented in Mr Kohl's entourage by chief executive Mr Ferdinand Piech, is expected today to announce a memorandum of understand-ing with the Dead Sea Works, a subsidiary of Israel Chemicals, to form a joint venture to build a magnesium production plant near the Dead Sea. The first phase of the \$600m, five-year project is estimated to cost \$325m and Volkswagen will have 35 per of the joint venture, one of the largest by a European company.



1994: YET ANOTHER POSITIVE YEAR.



For the banking sector in Italy, 1994 was not an easy year. Yet the Ambrosiano Veneto Group again reported positive results well above the sector average.

We continued to expand our national network, opening new branches and completing an acquisition in Sicily. We now have some 550 branches.

We continued to broaden the range of services offered by specialist companies within the Group, while our ongoing cooperation with leading business associations and a top insurance company yielded excellent results. In addition Caboto Holding SIM, one of only 13 companies

Parent Bank's figures as at 31st December 1994 US\$ m Customer deposits 16,613 Loans to customers 13,651 Net income Total assets 27,877 Shareholders' equity 1,320 (Exchange Rate Lira/USS as at 31st December 1994: 1,629.74)

recognised by the Bank of Italy as "specialists" in Government securities, is now wholly-owned by the Bank. We strengthened our presence on the international front too. Our London Branch, Representative Offices in Hong Kong, New York and the newly opened Beijing office, performed extremely well.

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Yet another positive year for Banco Ambrosiano Veneto Group in sharp contrast with the general trend for banks in Italy.

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ITALY'S LEADING PRIVATE BANK



Mandela to US moves face questions on killings

By Roger Matthews

President Nelson Mandela is to be interrogated by Sonth Africa's top police officer fol-lowing his admission in parliament that last year he ordered security guards at the beadquarters of the African National Congress to shoot to kill if the bullding was

Eight members of the mainly-Zuln Inkatha Freedom party died soon afterwards when a protest march outside the ANC headquarters in central Johannesburg was fired on by gunmen whose identity is still officially unknown after 14 months of police investiga-

Mr George Fivaz, the national police commissioner. said yesterday he would seek a statement from Mr Mandela on the incident as a result of the president's revelations. Mr Fivaz said he wanted to complete the investigation as swiftly as possible, and appealed to politicians to stop making inflammatory speeches which could pose a

danger to safety and security. Mr Mandela told the Senate last week that he issued the instruction on March 28 last year, when he feared that protest marches by the IFP could threaten the ANC hullding and the staff inside. "It was abso-lotely necessary for me to give that instruction," he said.

Mr Mandela's admission has been condemned by the IFP. which is already locked in an acrimonious dispute with the ANC over the degree of autonomy to be given to KwaZuln-Natal in the final constitution. Chief Mangosuthu Buthelezi. the IFP leader, has withdrawn in protest from the Constitutional Assembly, which is drawing up the final constitution, but said yesterday that be would remain as minister of home affairs in the govern ment of national unity.

The IFP has urged the police to charge Mr Mandela with being an accessory to murder and claimed that, although he had not been present at the killings, they resulted from his instructions

Mr Mandela's apparent acceptance of responsibility for the actions of the ANC guards may be designed to draw a political line under the events of that day, in which nearly 60 people died in clashes throughout the Johannesburg area. But he has also reminded Chief Bnthelezi of the lengths be has in the past been prepared to go to fight

challenges to his anthority. Several times this year Mr Mandela has emphasised that, although he would prefer consensus and conciliation, in the last resort he must impose discipline. He has been particularly angered by Chief Buthelezi's call for a programme of civil disobedience against ANC proposals for him-ited regional antonomy.

threaten **ILO** budget crisis

The International Lahour Organisation begins its annual conference today under the shadow of a looming hudget crisis, precipitated by the slump in the value of the dollar and threats by the Republi-can-controlled US Congress to slash or eliminate Washington's contributions to the United Nations body:

The agency's proposed budget for the two years 1996-7, due for approval at the conference, was set at \$500m (£318m), on the assumption that the dollar was worth SFr1.45. With the dollar now huying only about SFr1.16, the same budget denominated in Swiss francs. in which the ILO incurs most of its costs, would need to be

raised by 25 per cent to \$625m: Countries with weak currencies have already indicated that they may have problems increasing contributions and the ILO's difficulties have been compounded by uncertainty over US payments. In common with much of the UN system, the ILO receives a quarter of its funding from Washington.

The agency, which upholds worker rights and advises governments on employment and labour issues, has operated a zero real-growth budget since 1987 and Mr Michel Hansenne, ILO director-general, says there is no fat left. Further spending reductions will mean painful cuts in programmes, he

The state of ILO finances is expected to dominate the twoweek conference, during which representatives of govern ments, employers and trade unions from more than 170 countries are also due to discuss employment promotion, mine safety and social protec-

Despite staunch support for the ILO from the Clinton administration, and US employer and labour organisations, the Senate foreign relations committee has voted to cut off the agency's funding Representatives' foreign affairs committee has lopped \$11m from the proposed US contribu tion of \$64m this year.

President Bill Clinton has

said he will veto the budget range of UN and other international organisations. But Mr Hansenne says he is expecting a US contributions shortfall fo 1995. Washington pays its UN dues at the end of each year, so within the 1996 fiscal year

ILO officials also fear m countries will follow the US lead in cutting their contribu US hriefly pulled out of the ILO in the 1970s, complaining of "Israel bashing" and non-independence of Soviet bloc trade union representatives, other funding gap.

G7 warned on borrowing

The governments of the world's top industrial nations are fuelling turbulence in the currency markets by failing to restrain borrowing, an international business group warned yesterday, reports Robert Chote. Ahead of next week's G7 summit in Hal fax, Nova Scotia, the International Chamber of Commo for a "substantial reduction of structural budget deficits, a rever sal of the rapid growth in public sector debt, and the correction of

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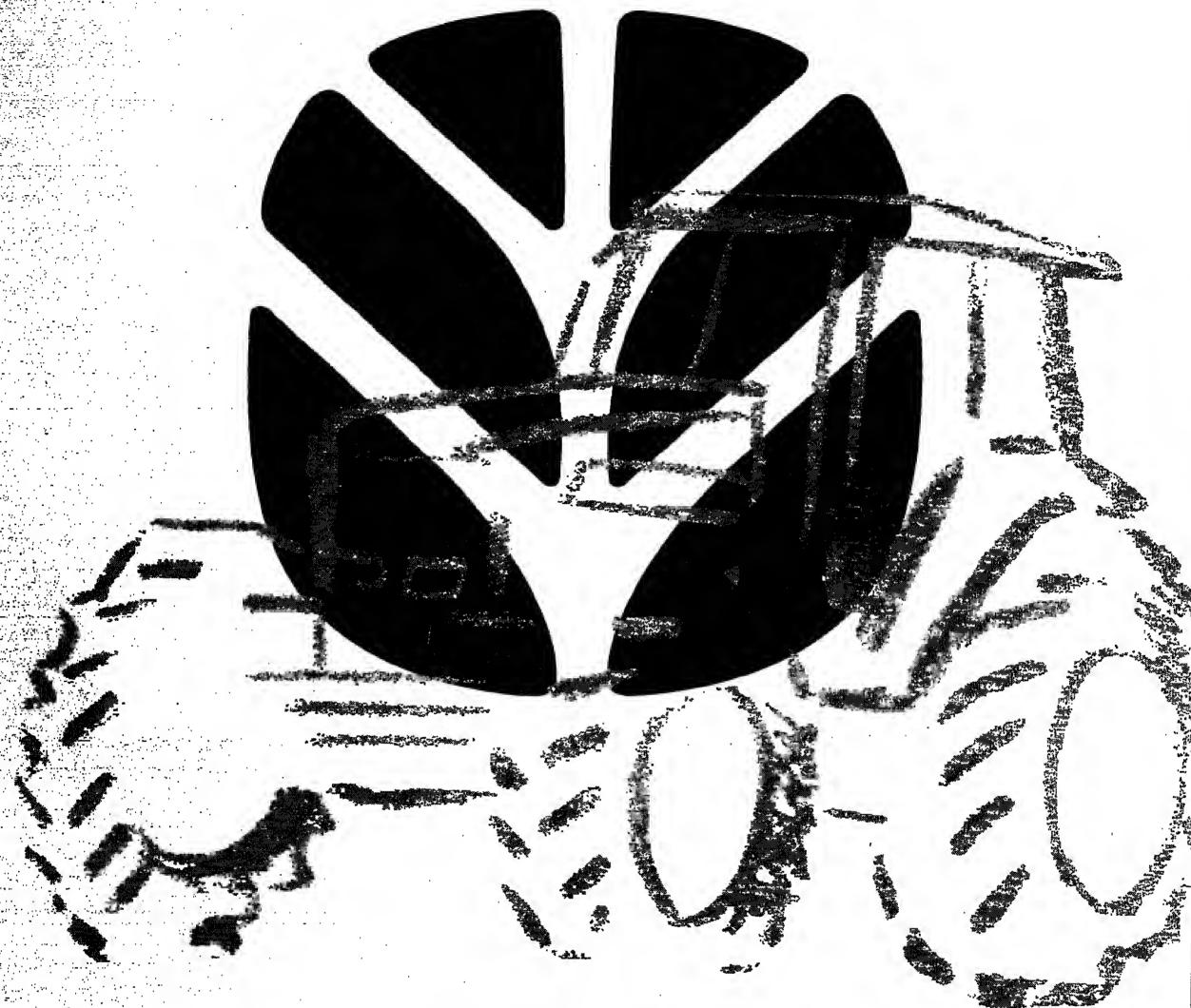
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Section 1

NEW HOLLAND 1994 ANNUAL REPORT



OF COURSE WE'VE GROWN WELL. WE COME FROM GOOD, STRONG STOCK.

1994 has seen New Holland grow rapidly, becoming the world's leading tractor company, in terms of numbers sold. A brilliant result, which confirms the success of the merger of Fiatogri and Fard New Halland. An exceptional result, as the total market share is now more than the cambined shares of these companies prior to the merger. The figures speak for themeselves:

Nr. of troctors sold				119
Nr. of combines sold		٠.		 4
Troctors market share				2
Combines market share	<u> </u>	÷	·	<u> </u>
Turnover		· . <u>:</u>		_4.7 Bili
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This growth reflects much mare than meeting short-term abjectives. It signals the beginning of a whole new development programme; introducing new products that cambine the highest technology with maximum versatility and user-friendliness. Designed to meet every customer need, with fast, expert service and after sales support

The driving force behind this growth comes from our worldwide teom of top professionals, our mojor investments in research and monufacture and our commitment to continuous improvements in service, right across the board.

cammitment to cantinuous improvements in service, right ocross the board. So the ground has been loid for more growth in the future.

New Halland has become the leading outhority in the ogricultural mochinery business, setting the standards for those who cultivate a new idea of the world.

NEW HOLLAND MACHINERY FOR ADVANCING AGRICULTURE

China urges delay in setting up HK supreme court

By Quentin Peel and Tony Walker in Beijing and Simon Holberton in Hong Kong

Mr Qian Qichen, the Chinese foreign minister, yesterday called for a delay in the establishment of a new supreme court in Hong Kong. The move could unlock a deal with Britain on the most contectious issue still to be resolved over the

1997 transfer of power in the colony. gainst any further unilateral British moves to establish new laws and institutions in Hong Kong before

In spite of his tough tone, the plan for Hong Kong could provide Privy Council should remain the

Hopes raised that Beijing will start negotiations for a genuine final arbiter the framework for a deal in the lat- highest court until the day before

est confrontation with Britain over the powers of the supreme judicial The hope is that that may mean China is prepared to negotiate each step in the establishment of the authority in the territory. If agreement can be reached, it court. Such a deal would satisfy would amount to a breakthrough in frosty relations between Britain and Beijing's concerns about sover-China over Hong Kong's transition eignty and, ideally, British concerns that the court would be a genuine to Chinese rule, and help revive final arbiter. business confidence in the colony.

Mr Qian called for a delay in set-Suitable guarantees on the juristing up the planned court of final diction of the court are still to be agreed, and further talks are expecappeal until July 1 1997, the day Hong Kong becomes part of China. He proposed instead that the British ted to take place this week. Mr Qian's comments suggest a willingness to negotiate.

"We are at a sensitive stage of negotiations concerning all aspects of the court of final appeal," a spokesman for Mr Chris Patten, the Hong Kong governor, said last night. "The nub of our position is that we want to ensure a genuine court of final appeal to replace the Privy Council. This has to he acceptable and to command the con-

Mr Patten and Hong Kong's prodemocracy politicians see the court as critical to the future rule of law in the territory, because it will pro-

fidence of the local and interna-

court in his interview, while insist-ing that it would "definitely" be established with effect from July 1

"There will be no judicial vacuum in Hong Kong," he said. "Before 1997, the right of final appeal will rest with the Privy Council in Britain. In order for the court to come into operation on July 1, it is necessary to make preparations for it. China and Britain can have discussions and reach agreement on

Mr Qian also said he would try to pay his planned official visit to Britain later this year, which has continued after 1997, then it is necessary for both sides to reach conbeen on ice because of the stale-Mr Qian gave no hint of the Chimate in talks over Hong Kong.



Qian: will not rule out China



Vietnamese refugees hold a friend they say was wounded by police in the protest at Kuala Lumpur's Sungai Besi camp

Malaysia quells protest by Vietnamese boatpeople

Malaysian riot police nsed tear gas and water cannon last night to force a group of Vietnamese refugees to return to their camp on the ontskirts of Kuala Lumpur, Kieran Cooke reports from Kuala Lumpur. The refugees were protesting about heing forcibly repatriated; they claimed conditions at the Sungel Besi camp, home to oearly 4,000 Vletnamese

boatpeople, had deteriorated. The demonstration was similar to protests earlier this year by Vletnamese refugees at camps in Hong Kong and the Pbillpplnes. The refogees (5,000 at the Knala Lumpur camp) broke down feoces, say-

ing they wanted to march to the US embassy.

Abont 50,000 Vietoamese refugees are in cramped camps in Hong Kong and countries of sonth-east Asia. Most are classified as economic migrants, so are oot eligible for settlemeot elsewhere.

A receot meeting of dooor countries to the UN High Commissioner for Refugees said the Vletnamese in the camps no longer qualified for international aid and should return to Vietnam by the end of this

Malaysia says it wants to close the Sungei Besi camp by the end of Angust.

ASIA-PACIFIC NEWS DIGEST

Foreign debt up in Australia

Australia's net foreign deht increased by A\$3.7bm (£1.68bn) to A\$166.9hn in the March quarter, a reversal of a trend in previous quarters when it appeared to be stabilising in absolute terms and declining as a proportion of gross domestic product. In the three months to March, the ratio of net foreign deht to GDP stood at 37.2, up from 36.9 per cent in the December period.

The increase was attributed to a recent sharp fall in the Australian dollar, which boosts the foreign currency-denominated component of the deht; some economists had been warning of an even bigger rise, perhaps of A\$10bn. Mr Ralph Willis, treasurer, yesterday acknowledged the government needed to stabilise the situation "over the

Japan may donate aid to PLO

The Japanese government yesterday revealed it was considering granting official development assistance to the Palestine Liberation Organisation. Mr Kozo Igarashi, chief cabinet secretary, said that details were yet to be finalised, but a decision was expected in the next few months.

The move would be Japan's first in providing assistance to an entity not a recognised state. Japan has so far provided funds to the PLO through international organisations including the UN Development Programme and the UN Relief and Works Agency for Palestine Refugees in the Near East. Tokyo claims the move comes in response to the Middle East peace process, but some analysts say it could ease the way for Japan to assist North Korea, with which Tokyo does not have Emiko Terazono, Tokyo full diplomatic relations.

■ South Korea's May M2 money supply rose 16.9 per cent from a year earlier, provisional Bank of Korea figures showed. The bank said it would peg June growth at 17 per cent. Reuter, Seoul ■ Fast-industrialising Asia needs up to \$50bn (£22bn) a year to generate and supply power, making the private sector an increasingly attractive source for building power plants, Mr Paul Nickson, senior engineer with the International Finance Corporation (IPC), part of the World Bank group, told a coal conference in Bali. Reuter, Nusa Dua, Indonesia

Poll reform set to fragment New Zealand's party politics

New proportional representation system favours smaller groupings and will allow room for less mainstream views, writes Nikki Tait

ir Roger Douglas, the for-mer Labour party finance minister who set New Zealand on its much-applauded road to ecocomic rectitude 10 years ago, sits in a sparsely furnished office in Auckland. explaining why the process is unfinishe

"While it's true we've had reform in the ecocomic arena, we haven't had genuine reform in the social policy area," he says, with cheery hluntness.
"And if we don't reform the social policy area, in my view that is going to come back and bite us in the long term."

So Sir Roger would like New Zealanders to abolish income tax. In return, they would be asked to make their own arrangements, via the private sector, for health and pensions. The government would con-tinue to run a social safety net, and also allocate a fixed annual sum for the education of each child, to be spent as parents wished. But the state's much-diminished expenditures would be funded principally from existing indirect taxes oo goods and services.

The twist is that this is not political whimsy. A new elec-toral system in New Zealand which replaces the "first past the post" method of electing MPs, with a type of proportional representation known as Mixed Member Proportional ties, such as Sir Roger's newly formed Association of Consumers and Taxpayers (Act), hopes of real power. New Zealanders chose the

system in a referendum two years ago. Late last month redrawn electoral boundaries were unveiled. The next election, which can be called any time before late 1996 when the

New Zealand's economic reforms have been socially unfair and would not be adopted by any civilised country, Mr Peter Cook. Anstralian industry minister. told parliament yesterday, Reuter reports from Canberra Mr Cook said he welcomed New Zealand's strong

vide an independent final judgment

in all legal cases except those relat-

ing to "acts of state" - meaning

foreign policy and defence. But Mr

Patten had threatened to press

ahesd with his own law if no agree-ment with China could be reached.

nese side cannot accept", Mr Qian said. "If those decisions made by the British side before 1997 are to be

This is something which the Chi-

economic growth, but the costs of the reforms which produced it were too high. "While one welcomes the changes in the New Zealand economy, it's not a route any civilised

expires, is to take place under the new rules.

In essence, MAIP gives each adult New Zealander two votes for the single-chamber parliament. The first is for 65 constitnency MPs, the second - a so-called preferred party vote for 55 representatives drawn from party lists.

The system will benefit smaller parties. In the 1993 election one of the two established minor parties - the leftleaning Alliance - won 18.7 per cent of the vote bot gained only two seats. Under the new rules, a similar result would give it more than 20 MPs. To qualify for list seats,

smaller parties need to get more than 5 per cent of the popular vote or win at least one constitueocy seat. Some latter score thanks to high-profile leaders. For example, New Zealand First, which holds two seats in the current parliament but has dropped below the 5 per cent level in some recent polls, can probably rely oo Mr Winstoo Peters, its founder and a former National party cabinet minister, to ensure

government would want to take in my view. It's too brutal, too socially divisive." Mr Cook was referring to heavy staff cuts in New Zealand's public service and cuts to unemployment and other social benefits during the early 1990s. New Zealand's recent strong economic growth and low unemployment rates were due in part to Australia's own economic growth and to

large numbers of New Zealand's unemployed now living in Australia, be added. has business backing but has

been polling at the 4 per cent level to date, may depend more heavily on advertising and promotion. In any event, Sir Roger is breezily confident.
"Oh yes, I don't see any problem with [the S per cent thresh-

old). It's really Act versus the rest. If you think about it, all the other political parties are the same...politicians who take your money make you dependent on them. What we're really saying is something strange; we're saying you're smarter than that. Do it yourself."

Already, aspiring parties are everywhere. The Electoral Commission, which must vet any organisation that wishes to put a party list before voters and ensure that it has at least paid up members, has

approved eight so far. The ruling National party's wafer-thin majority in the current parliament has been partly undermined as MPs have defected to head the new groupings. Mr Graeme Lee, the National party MP for Matakana, hroke away to lead the Christian Democrats last month, signing a coalition support the government on

confidence matters Mr Ross Meurant, another former National MP. who formed the new Right of Centre party, already operates on 8 similar arrangement. Techni-: cally speaking, the National party has become a minority government. Whether its coalition

arrangements hold or its political fragmentation continues will he one thing that will determine whether an election is held before November 1998. And recent opinion poll. results indicate that when an election is held, no party would . hold a majority in the new 120-

seat parliament. National fares best with 37-40 per cent. Labour comes next with 25-26 per cent and the Alliance is close on its heels. The two most likely coalition groupings are on the right or left. National, runs one theory, could tie up with the various right-wing breakaway parties,"

although personal friction

between Mr Peters and Mr Jim

Bolger, the prime minister, make a NZ First/National grouping less likely. On the left, there has been some union pressure for-Labour and the Alliance to do s deal - and Mr Jim Anderton. personally popular and restored as Alliance leader last month after taking time out following the suicide of his daughter, has made some con-

ciliatory noises. Sir Roger is cautious about the transition to the MMP sys tem. "It's too early to tell I think the problem is that there are huge risks in it But if it enables the political parties to shed people who do not share their hasic philosophy. that would be quite a good

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FT FINANCIAL TIMES

CONFERENCE

WORLD MOTOR

13 & 14 September 1995 Hotel Inter-Continental, Frankfurt

This major FT conference, timed to coincide with the biennial Frankfurt Motor Show, is widely regarded as Europe's highest profile automotive event. This year's meeting takes as its overall theme the globalisation of the auto industry and will examine how vehicle manufacturers around the world are restructuring to compete in world markets.

Issues to be addressed include:

- · Restructuring in North America, Japan and Europe
- Opportunities in Emerging Markets
- Supplier and Manufacturer Relations
- · Retailing and Distribution Trends

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Chairman and Chief Executive Officer

DRI/McGraw-Hill Mr Giovanní Battista Razellí Vice President International Direction

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Dr Martin Posth

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Mr Peter W Johnson Chief Executive **Inchcape Motors Retail**

Professor Garel Rhys OBE Professor of Motor Industry Economics Cardiff Business School, University of Wales

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that it gains representation. current government's term Others, such as Act, which agreement that will see him thing. INTERNATIONAL ECONOMIC INDICATORS: NATIONAL ACCOUNTS Figures for GDP/GNP are in billions of European currency units (Ecu). The first breakdown is in current prices and the second shows growth rates in the constant price series UNITED STATES **E JAPAN** 825.S 911.1 967.5 1,015.8 1,067.1 1,193.9 1,306.1 1,394.3 1,467.4 1,533.1 18.1 19.5 19.4 18.7 18.6 19.2 18.7 18.1 17.4 1985 1986 1987 1986 1983 1990 1991 1992 1993 1994 56.4 55.0 55.3 54.7 54.4 53.9 54.2 54.5 55.8 55.8 19.5 2,033.6 2,102.2 2,466.0 2,525.4 2,321.8 2,729.4 2,848.8 3,609.2 3,911.5 17.4 17.5 17.2 17.1 2nd qtr.1994 3rd qtr.1994 4th qtr.1994 1st qtr.1995 15.5 15.5 15.8 15.9 58.5 58.5 59.1 28.8 28.7 28.3 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 8.1 5.2 3.0 0.6 2.0 3.1 1.2 -0.7 -0.8 -0.8 1.7 4.5 0.4 2.2 2.0 1.9 1.8 2.7 1.7 2.9 6.5 -S.3 4.6 10.7 15.1 10.S 5.0 2.7 -1.1 3.3 2.2 1.4 3.5 4.2 5.7 4.8 0.9 -2.3 1.7 2nd qtr.1994 3rd qtr.1994 3.6 2.S 2.6 FRANCE -1.8 -0.3 -0.5 -0.6 -0.4 -0.4 -0.3 2.8 2.9 1,112.8 1,136.8 60.2 60.1 59.7 872.4 866.4 858.4 18.6 19.7 19.7 2.2 2.2 2.3 63.0 62.5 62.6 18.5 17.6 17.8 3.0 2.8 2.4 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 3.4 2.6 3.4 2.8 1.2 1.5 1.0 0.7 3.8 6.8 6.3 7.5 3.2 0.8 -2.2 0.0 2.7 2.8 2.8 10.7 17.3 3.8 -7.4 -12.3 2.0 1.8 8.1 2nd qtr.1994 3rd qtr.1994 4th qtr.1994 1st qtr.1995 6.4 14.2 17.8 1.5 2.0 1.8 1.1 0.7 0.7 1.8 2.2 1.8 -1.2 11.3 14.1 10.9 12.7 10.3 5.4 ·· 4.6 8.1 3.7

Seasonally adjusted data used in all cases. GDP/SNP is broken down into private consumption expenditure, investment (the sum of gross fixed capital formation and the change in stocke), general government final consumption, and net exports (exports of goods and services mixius imports of goods and services). The US includes investment by government in the government sense rather than under investment. Quarterly GDP/GNP totals are annualized. The growth rates are the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The figures in the lifth column of each set of growth rates rates only to exports, rather than to net exports. Data supplied by Datastreem and WEFA from national government sources.

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94 million lines of AXE installed and on order the 100 millionth the will be installed this year. The largestmarkets, measured by total lines. installed, are the United Kingdom, Australia, Mexico, Sweden and

China: * The AXE system is used in more than 110 countries, in public fixed. neworks as well as in mobile tele-

phone systems. The Marie was the grant of

Anti-terror bill stalled by politics

The US Senate returned from a holiday recess yesterday with the counter-terrorism hill at the top of its agenda but still bedevilled by political and civil libertarian controversies.

President Bill Clinton offered

his own proposals in the wake of the Oklahoma City bombing on April 19, in the expectation that Congress would act by the Memorial Day recess, which began 10 days ago. In a speech last week, he criticised the legislature for not having responded to his request for speedy resolution.

However, in a television interview, Senator Robert Dole, Senate majority leader, countered by blaming the Democrats for having offered a total of 67 amendments to the bill. With the Republicans having proposed 30, Mr Dole volunteered to limit his party's amendments if the president would press Democrats to contain theirs. Mr Clinton yesterday agreed there were "too many

imnecessary amendments." Mr Dole said he was prepared to back one Democratic amendment - requiring that the ordinary kind of fertiliser used in the Oklahoma bomb be "tagged" to make its source easier to trace. The chemical industry and some Republicans have opposed this on the

problem" with the idea.

Even so, Democrats and civil libertarians have objected strongly to one Republican proposal - to limit to one the number of appeals that con-victed criminals facing the death sentence may launch. A similar proposal has already passed the House of

Representatives.

There is also concern on the right - shared by the American Civil Liberties Union on the left - that some of the administration's suggestions to expand the scope of federal investigations infringe the protection of the Fourth Amendment to the constitution against lhe "unreasonable search and seizure" of private

The Senate had voted before the recess to deny the government an expanded wiretapping authority, another source of concern. The administration had proposed letting the police move wiretaps on a suspect without being obliged to get e new court order on

Also questioned are the rights of non-citizens suspected of involvement in terrorist activities and bable, under several proposals, to summary deportation. The use of the US military in domestic law enforcement, another administration idea, has attracted addi-

US urged to cut immigration by a third Uruguay

Legal immigration to the US should be gradually reduced by as much as one third below current levels of about 830,000 a year, according to proposals by an advisory commission set up by

Priority should be given to clearing up the large backlog of residency appli-cations from the immediate relatives of foreigners legally living in the US. But some visa preferences for siblings and children of US citizens should be abol-

Immigration Reform headed by Mrs flexible mechanism. Barbara Jordan, the former congress-woman, will not be made public for some weeks. They will prove an important ingredient in an increasingly heated debate nver what level of immi-

gration the US can sustain. On Thursday, the Senate judiciary committee is to begin work on its immigration bill, initially focusing on the problem of illegal aliens. But Senator Alan Simpson, the chairman, is also

The proposals, by the Commission on in a given year, replacing the current for illegal immigrants to find work in

On the right wing, Mr Pat Buchanan, the Republican presidential candidate, and several advocacy groups are demanding a complete freeze on new legal immigration. But their libertarian bedfellows, like Congressman Dick Armey, the House majority leader, insist that the US should not close its

doors to immigration. Mrs Jordan's commission has already attracted controversy by proposing last the US. Its proposals seem broadly in line with Mr Simpson's ideas. He has recommended a 25 per cent reduction in legal immigration over the next five years on the grounds that current levels are more than can be "comfortably

But the overall numbers are complicated by the special allocations granted to those wanting to leave certain countries, such as Russia (under the Lautenberg amendment covering Jewish emigrations. Armenia and Ireland, all with powerful US lobbies.

set to cut cost of pensions

Uruguay was yesterday set to send controversial social secnrity legislation to parliament aiming to cut the cost of one of Sonth America's most gener-

ous pensions systems. The legislation, certain to be opposed by the left-wing Encuentro Progresista alli-ance, which has a third of the seats in Congress, has been drafted in response to pensions costs risen from the equivalent of 10 per cent of gross domestic product in 1990 to 15 per cent today.

Four attempts have been made to reform the pensions system in the past decade, but they were derailed by public opposition and fectional poli-

Mr Ariel Davrieux, director of budget and planning and one of the architects of the bill, said be believed reform stood e good chance. He pointed to the relative solidity of the coalition government, formed by the Colorado party of President Julio María Sanguinetti and the Blanco party. Together, these have 65 per cent of Congress seats.

One western diplomat said there was a growing consensus that the current system was unsustainable. A combination of high life expectancy, youth emigration and a low retirement age means that, for every three Uruguayan work-

ers, there are two pensioners. The new hill, dne to he approved by the council of ministers late yesterday, would change Uruguay's payas-you-earn system to a mixture in which higher earners would take ont a personal savings plans. These, which would amass individual savings rather than pay current pensioners, would be administered by a mixture of public and private companies. New legislation would also attempt to lower high levels of evasion and under-declaration of wages, while state pensions would only be paid to people

seeking hard and lower ceilings on the year a national employment identity number of refugees the US may admit card, designed to make it more difficult

Panhandle region of north-western Florida with 75 mph winds yesterday (see Reuter picture above). It whipped high tides into a storm surge that flooded streets and marinas, and

from Florida. Water rose eight feet within 90 minutes after dawn as the surge hit the

County, including the town of Shell Point, south of Tallahassee.

Allison has since been downgraded from a burricane to a tropical storm coast, flooding several houses and at but, having struck in the first week of least one restaurant in Wakulla June, it was the earliest hurricane to

at the US National Hurricane Centre. Governor Lawton Chiles of Florida has declared a state of emergency along the north-western and central Gulf Coast areas of the state.

Resurgent Tories call for 'common sense revolution' in Ontario poll

By Bernard Simon in Toronto

Ontario, Canada's wealthiest province, may be about to take a sharp turn to the right in

elections this Thursday. If the latest opinion polls are correct, the Progressive Conservative party will score a surprise victory over the Liberals, who were far ahead when the election was called five weeks ago. The left-of-centre New Democrats (NDP), who have held office since 1990, trail far behind. The Conservatives' leader.

Mr Mike Harris, has promised a "common sense revolution" which, if implemented, would improve Ontario's investment climate hut might erode its reputation as among the most politically benign of Canada's 10 provinces.

Ontario accounts for about a third of Canada's population. It contributes 40 per cent of gross

domestic product and half total exports, thanks to its diversified industrial base.

But the economic outlook is clouded by a decade of rising government deficits, to the point where the province, with an accumulated debt of close to C\$100bn (£45.5bn), is one of the biggest non-sovereign borrowers on global capital mar-

Mr Harris argues: "It's time for government to make the families and in our jobs."

The Conservatives would

The latest development is the

addition of an optical cross-connect

demonstrator in the network. It is part of

the Multi-Wavelength Transport Network

(MWTN) project, one of the largest

optical network research projects within

nptical croas-connect nodes (and

another minor node) which routes four

independent wavelength channels with

Tha demonstrator consists of two

the European RACE programme.

Mr Harris has promised to cut income tax rates by 30 per cent, hul to balance the provincial hudget within five years. Public spending - excluding healthcare, education and law enforcement - would be slashed by 20 per cent by cutting 13,000 civil-service johs and trimming welfare benefits.

same types of changes all of us also privatise the non-nuclear have had to make in our own assets of Ontario Hydro, the assets of Ontario Hydro, the province's power utility; and the Liquor Control Board of Ontario, the world's higgest

alcoholic drinks retailer. Pledges to reform the welfare system and roll back the NDP government's affirmative action and pro-union labour policies have struck a respon-sive chord among voters. Mrs Lyn McLeod, the Liber-

als' leader, accuses the Tories

of offering policles based on "fear and resentment," and has questioned the arithmetic behind their promises.

However, after an unfocussed campaign, polls suggest the best the Liberals can hope for now is a minority government supported by the NDP. Mr Harris, who ran his fami-

ly's ski resort in northern Ontario before entering politics, has so far shown little interest in emulating previous

Ontario premiers as an influential broker in national affairs. However, a Conservative revival in Ontario could do wonders for the party's federal

wing, which governed Canada for nine years from 1984 but was left with only two MPs in the 1993 general election. A reinvigoraled Tory party would be especially worrying for the Reform party, which sipboned off most of the righlof-centre vote in 1993.

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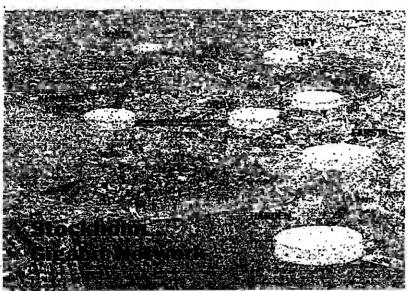
who could prove they had

worked 35 years.

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ericsson =

Pioneering Stockholm broadband project uses Ericsson optical switch technology



A schematic diagram of the proposed Stockholm Gigabit Network – the new optical research project jointly funded by Ericsson and Telia.

AXE installations set new record

Continuing its status as the world's most widely used digital ewitching system for public telecors networks. AXE exchanges are being installed wichdwide at a faster rate than ever in cateridar 1994, 13.5 million lines of AXE were installed - a 15% rincrease over 1993: Of the total 10.7 million were local lines, the magainder transit

By the end of 1991, there were

optical network research project regarded as e testbed for the technologies that will be needed for

new services such as Video on Demand and Video Telephony. Called the Stockholm Gigabit Network (SGN), the experimental network connects sites belonging to Ericsson, Telia end Ellemtel (tha development company jointly owned by Ericsson and

Stackholm, Sweden: Ericsson is

collaborating with Telia, the Swedish

telecom operator, in an important

bit rates up to 2.5 Gbit/s. Ericsson has developed and manufactured meny of the notoelectronic devices used in the Stockholm demonatraior, notably optical space switch matrixes, wavelength-tunable optical filters, and wavelength-tunable laser diodes. The research demonstrator is controlled by a high-level (software)

Ericsson.

This research demonstrator is seen by Ericsson and Telie as a significant step towards the implementation of flexible, transparent optical networks inwhich transmission capacity can be controlled on demand, without translating the optical signals into electrical signals.

management system also developed by

There are ten participants in the MWTN project. Apart from Ericsson

and Telia (Swaden), they are BT Laboratories and the University of Essex (UK), the University nt Paderborn (Germany), Ericsson Telecommunicazioni, CSELT, Italtel, and Pirelli Cavi (Italy) and CNET (France). Telia) in the Stockholm area. First-quarter results

show continued growth

Interim results for the first querter of 1995 show Ericsson's pre-tax profits up by 48% to SEK 1,206 million on consolidated net sales 24% higher at SEK 19,806 million. Order bookings for the first three months were up by 21% al SEK 25,921 million.

All business areas contributed to the Increase in order bookings and sales. Radio communications eccounted for 60% of order bookings.

The US remains Ericsson's largest markel, accounting for slightly more

then 10% of nat salas, followed by Sweden, China and Great Britain. The company reports strong rises in net sales in Japan, Australia, Malaysia and

The first querter of 1995 was cheracterised by strong growth," commented Ericsson Chief Executive Lars Ramqvist. 'Order bookings have nnw increased for the lourteenth consecutive quarter, and we can also report a positive trend in net sales and

US\$ 182 million PCN breakthrough in Asia

Ericsson has won a breakthrough nrder in Asie for Personal Communications Network (PCN)

technology. The US\$ 182 million order from Muliara Telecommunications Sdn Bhd in Malaysia covers Infrastructure, switching equipment and mobile phones for e PCN network thal will initially serve Paninsular

Malaysia. There are already some 600,000 mobile phona subscribers in Malaysia, representing about 3% of the population. It is expected that

the new PCN systems will stimulate growth to well over one million users by the end of 1995, and perhaps three million by the turn of

the century Operating at 1800 MHz, the Ericsson DCS 1800 system is particularly suited in denselypopulated metropolitan areas where traffic valume is the main

challenge, rather than range. The largest DCS 1600 network in the world, operated by Mercury One-2-One in the United Kingdom, was delivered by Ericsson.

New PCN phone is smallest, lightest

The recently-launched Ericsson PH337 pocket phone has been specifically developed for use on Personal

Communications Networks. With a weight of just 193 g and a volume of 148 cc (with the smallest of three battery options), it is claimed to be the smalles and lightest PCN phone on the market. Yet it offers 120 minutea of talk

time on a aingle charge, increasing to 240 minutes with the lergeel battery. Onscreen menus allow usera to eccess all the functions and services they require quickly.

PH337 weighs just 193 grammes

'Mobile phone of the year' - again!

An Ericsson portable phone has been chosen as 'Mobile phone of the year' for the second year running, in the UK's ennual Cellnet CAESAR awards.

This year It is the GH337 digital phnne. Laat year it was the EH237 analogue phone.

The CAESAR ewarde are for excellence, service and reliability in the mobile phone industry. There are twelve individuel awards, of which the 'Mobile phone of the year' eward ie the

most prestigious. Ericseon alsn scooped three other awards at this year's ceremnny: for Design, Cuatomer Awereness and Service to Customers GH337 wins

top UK award

New Ericsson modem offers high speed for low cost

After 25 years designing end producing high-performance modems for advanced systems and applications, Ericsson has launched its first data modem eimed al lhe business community.

The V.34 DT modern is an extremely compact, low-cost unit lhat can be

connected to e single computer or to a company LAN (Local Area Network). II supports high-speed data rates up lo 28,800 bps.

The main application is expected to be among people who use the Internet, bulletin boards or other nn-line infnrmation and communications services.

New microchip fab

Ericsson's new US\$ 100 million semiconductor fab (waler labrication facility) at Kista, Sweden, has gone from green field aite to commercial operation in just two years.

in operation

The first Ericsson-designed microdevice to be produced in the fab is a Very Large Scale Integration (VLSI) chip to be used in the switch core of the AXE switching system. It has 100,000 gates, and will be manufactured using e CMOS wafer process using the latest



World round-up

Philippines: Ericsson is to supply and install fixed telephone lines for the Philippine Long Distance Telephone Company (PLDT) in Metro Manila and Cebu. The US\$ 100 million project includes copper and optical fibre networks that will allow a further 175,000 subscribers to be added to the network. Italy: Ericsson is to supply switching and transmission equipment and radio

the expansion of Telecom Italia's GSM network. The new equipment will be manufectured et Ericsson's plant in Pagani, Italy. Spain: Ericsson has been selected to supply GSM cellular network infrastructure for the Airtel network, to go Into service in Madrid, Barcelona and five other cities by October this year. Airtel will be the second GSM network in

base stations worth Lire 350 billion for

Spain - and the second using Ericsson Japan: A major expansion of the Kansai Digital Phone Companies' (KDP) mobile phone networks serving Osaka, Kyoto, Nera, and Kobe will usa Ericssnn switches and redio base

Telefnnaktiebolaget LM Ericsson, S-126 25, Stockholm, Sweden. Ericsson's Information-on-demand database

stations worth Yen 12,260 million.

can be addressed at: www.ericsson.com Ericsson's 75,000 employees are active in more than 100 countries. Their combined experience in switching, radio and networking makes Ericsson a

world leader in telecommunications.

Aircraft orders 'will stay low until 2004'

By Michael Skapinker, Aerospace Correspondent

Aircraft orders will remain subdued until well into the next century, according to a market forecast issued yesterday by Boeing of the US.

Boeing said that while previous improvements in the world economy had resulted in a surge in aircraft orders 12 to 18 months later, this had not happened during the current recovery.

This was because, unlike the last two recessions, countries had experienced a downturn at different times and were recovering at different rates.

Airlines already have 1.800 aircraft on order, twice as many as at the same time in the previous two economic cycles. Between 250 and 350 aircraft are currently unused around the world and may be returned to service. Airlines are also expected to use profits to repair their balance sheets before ordering new aircraft.

Boeing said that 15.400 aircraft, valued at \$1,000bn, would be ordered over the next 20 years. Of these, 10,000 will be new aircraft designed to accommodate an expected average 5.1 per cent annual air traffic growth. A further 5,400 aircraft are expected to be purcbased as replacements for those taken out of service.

Over the next five years. however, airlines are expected to spend less on aircraft than they did from 1990 to 1994. Expected annual spending between 1995 and 1999 will average \$37hn, Boeing sald. This compares with \$41bn between 1990 and 1994.

In the period 2000 to 2004, average annual spending will be \$45hn. Expenditure on aircraft will only pick up substantially between 2004 and 2014 when average aircraft expenditure will be \$63bn.

 Boeing and McDonnell Douglas declined to comment yesterday on reports that Saudia Arabia Airlines has agreed to buy 22 Boeing 777s and five Boeing 747-400s, along with 29 of McDonnell Douglas's MD-90s and four freighter versions of See feature, Editorial page

Brittan anxious over **US-Japan trade deals**

By Michiyo Nakamoto in Tokyo

Sir Leon Brittan, the European trade commissioner, yesterday warned the US and Japan not to arrive at any trade deals which would leave Europe out

"My message to Japan and the US is, please use that (the multilateral free trada) system and make it clear that you abide by that system," Sir Leon said in Tokyo. "And if you want Europe's sympathy, don't make any deals at our expense," he added.

He reiterated Brussels' criticism of the \$5.9bn in punitive tariffs on Japanese luxury car imports which Washington threatens to make final if the US and Japan fail to reacb

The Council of the European Business

Community yesterday urged Japan to

improve foreign access to its financial

markets. in a report analysing the country's banking, securities, pension

fund and insurance markets, Emiko

The report is the EBC's first comprehensive report ontlining the current

environment and problems facing for-

eign financial institutions in Japan,

and presents a series of recommenda-

concern by Japanese financial anthori-

ties over declining interest in Tokyo as

tions to the Japanese government. The report coincides with mounting

Terazono writes from Tokyo.

agreement on cars by June 28. Washington announced the sanctions on May 16 after nearly two years of talks failed to resolve a dispute over better foreign access to Japan's car and car parts markets.

Japan maintains that the sanctions violated world trade rules and has sought urgent talks with Washington under the anspices of the World Trade Organisation in Geneva.

Washington is pressing Japanese carmakers to buy more US car parts, but the EU fears sucb plans would be at the expense of European parts makers' sales. Sir Leon, however, urged

Tokyo to press ahead with

deregulation, or risk prompt-

ing Europe to adopt a tougher,

less co-operative approach to Japanese markets.

Sir Leon also renewed hia call to Tokyo to set a target of reducing the country's persis-tently high current account surplus to 2 per cent of gross domestic product.

The suggestion to set a tar-

get for reducing Japan's trade aurplus echoes the viewa of some conservative members of the country's ruling coalition as well as those of Japanese business laaders concerned that a clear commitment to reducing the surplus is necessary to halt the rise of the yen. Mr Masayoshi Takemura, the finance minister, said the Japanese government was cautious about setting numerical tar-

gets. At the end of the year to



EU trade commissioner Sir Leon Brittan (left) meets Japanese trade minister Ryutaro Hashimoto before yesterday's talks

March, the surplus is expected to have fallen to about 2.7 per cent of GDP, though no official figures have been published yet, and the government forecasts a reduction in the surplus to 2.4 per cent of GDP in the current year, a Finance

Ministry official added. regret about the EU's plans to mura said.

Organization over its liquor tax regime, which the EU claims discriminates against certain drinks. Japan has amended its liquor taxes twice since a Gatt panel ruled in 1987 that Japanese taxes discriminated against whisky and cer-Mr Takemura expressed tain white spirits, Mr Take-

take Japan to the World Trade

on non-Japanese companies in privati-sation issues demonstrates a lack of reciprocity by the Japanese govern-

ment, the report says.

The council called for the freeing of the country's \$1,700bn pension market to asset management companies and the easing of rigid regulations in the life and non-life insurance industries. The EBC also recommended changes in the tax and accounting system to promote more foreign direct investment in Japan and the lifting of restrictive provisions on practices of foreign lawyers to help foreign investors in need of

Financial markets plea been slow to respond to the calls for

an international financial market. The EBC comments also follow a rise in delisting of foreign companies from the Tokyo Stock Exchange and the government's mishandliog of the Japan Tobacco privatisation last year.

The financial sector in Japan is highly regulated and while the banking, securities, pension and insurance markets have grown to he among the world'a largest, the country's Ministry of Finance and Bank of Japan have

The EBC urged a more transparent regulatory environment in the banking sector, a simplifying of reporting and flexible approval for new financial products, including securitised assets. In the securities sector, the lack of access by foreign securities houses to the underwriting business has become an issue for concern, while restrictions

Philippines announces two-airport plan

By Edward Luce in Manila

Manila airport and Clark air base are to be developed in tandem to become the country's joint premier airports, the Philippine government said vester-

in a move which surprised much of the Philippine husiness community. President Fidel Ramos said the joint development would create a "win win" situation for both projects.

The modernisation of the two airports - the Ninoy Aquino International Airport (NAIA) in Manila and Clark air base, which was the US air force base in the Philippines until 1992 - would be financed

under the country's showcase huild-operate-transfer law through foreign and local consortia, the president said.

"I would like to emphasise that NAIA and Clark are not competitors," said Mr Ramos, 'In fact we are now working very hard to eventually put the two together under one management so that there will be smooth co-ordination."

Clark would initially focus on cargo traffic while the upgraded NAIA would remain the country's passenger huh until at least 2015.

The bidding to construct the \$300m third terminal at the NAIA, which would form the hulk of the modernisation work in Manila, commenced

last year. An informal tender by the British Airports Authority for the terminal is regarded as a strong contender.

The BAA hid, submitted as part of a joint proposal with the Asia Emerging Dragons (a group of aix Filipino-Chinese husinessmen), would he the privatised UK group's first overseas airport contract. Singapore Changi Airports Enterprises has been provisionally awarded the project to design the terminal

A \$1hn hid hy Ital-Thal, the Bangkok-hased construction group, to convert Clark from a military air base into a passenger and cargo venture ran into controversy earlier this year after allegations of graft.

General Motors of the US is planning to return to the Philippines with a \$1bn car assembly and parts manufacturing plant, Reuter reports from Manila.

Mr Rosario Estacio, director of the Board of Investments, said the US car company had submitted a proposal to build a plant at Subic Bay Freeport, a former US naval base north of Manila. The plant would assemble 150,000 cars a year and produce parts, including engines and transmissions, for export around Asia. He quoted a senior manager as saying that GM also plans to

re-enter the domestic market, which it abandoned in 1984. The Philippine car and truck market is at present almost completely dominated by Japanese manufacturers.

Ancillary contracts, such as \$600m road between Manila and Clark which has been provisionally awarded to a Spanish consortium, are expected to go ahead after the airport contracts have been awarded. A third international airport

opened at the former US naval base in Subic Bay Freeport on April 30. Federal Express, the IIS delivery service, has chosen Subic as its Asian headquar-

BAA results, UK Company News page

WORLD TRADE NEWS DIGEST

India warned over power deal

The US and Britain yesterday warned New Delhi that foreign investment could be jeopardised if Maharashtra state scrapped a power agreement with an American conscitum led by Enron. The US Department of Energy warned that failure in honour agreements to set up the \$920m Dabhol power project in Maharashira could affect financing for other private power projects. The Enron project was cleared by the Congress government headed by Mr Sharad Pawar, and is under review by a ministerial committee after a new Hindu nationalist government won state elections in March. The committee will present its findings to the state cabinet within a month. The project has become a test case for future foreign investment in India's infrastructure sector.

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The US statement follows a stiff warning from Mr Kenneth Clarke, UK chancellor, that a review of the project would adversely affect foreign investment in Maharashtra and the rest of the country. Mr Clarke is currently heading a business delegation to India.

Mr Francis Dore, chairman of the Franco-Indian Chamber of Commerce, said yesterday that if agreed projects were reopened every time a different political party came to power. it would send the wrong signal to foreign investors. Mr Dore... said the French business community was also apprehensive about action to curb imports. Shiraz Sidhoa, New Delhi

Polish glass levy urged

Pilkington, the UK glass maker, is pressing the Polish government to introduce a 15 per cent tariff on imports of float glass from Hungary and the Czech Republic.

The Polish market is around 300,000 tons, with imports of around 80,000 tons a year from the Czech republic, Germany and Sweden

Pilkington is bringing Poland's first 140,000 ton-a-year float glass production line on stream in September and tariffs would help the venture establish its domestic production. The production facility cost \$150m and was financed through loans from the European Bank for Reconstruction and Development. the International Finance Corporation and a consortium of

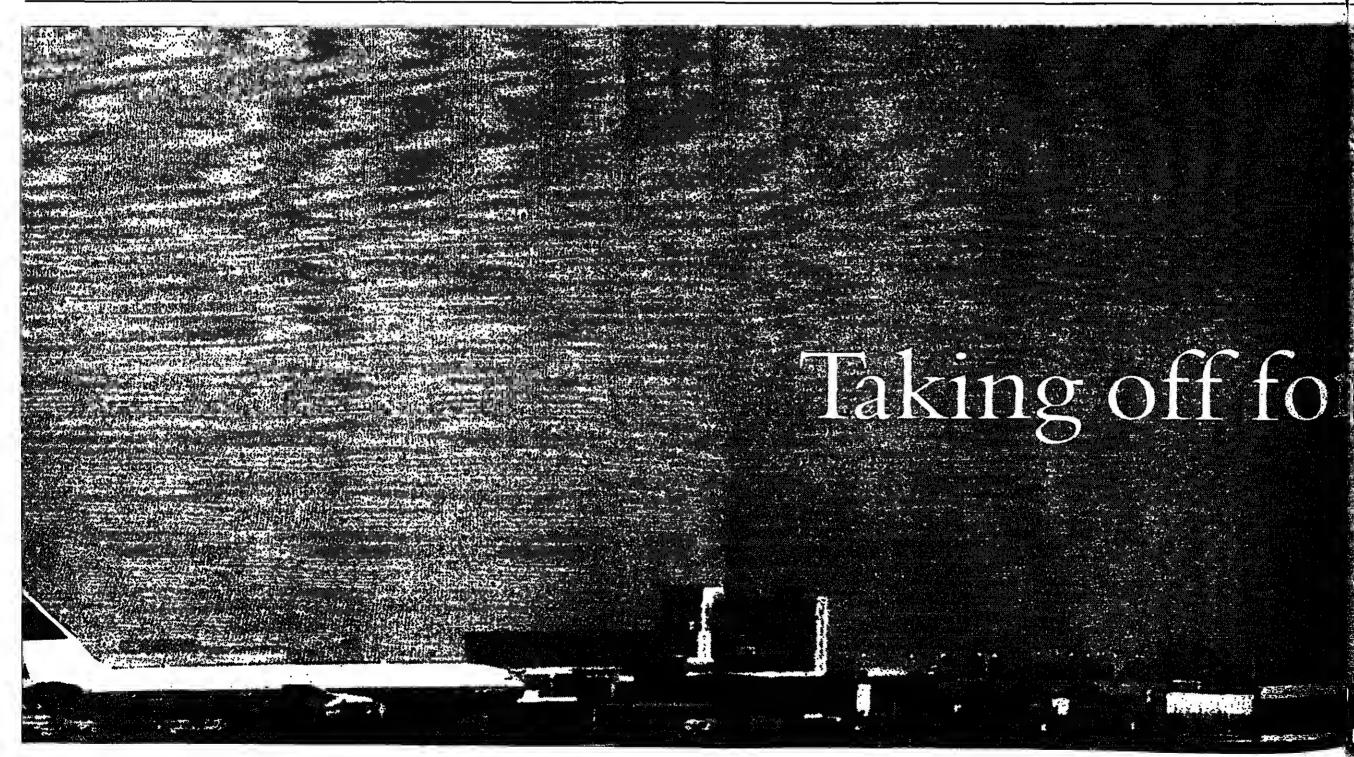
Polish banks led by the Polish Development Bank. St Gobain, the French glass producer, has embarked on the construction of a greenfield DM220m (\$153m) float glass works in Silesia. It will have an annual capacity of 150,000 tons and is expected to come on stream at the end of 1996 to compete with Christopher Bobinski, Warsau

Contracts and ventures

Marubeni and Hitachi Denshi of Japan, won a HK\$110.5m (\$14.3m) contract for a mobile radio system for Hong Kong's new airport and Siemens of Germany received a HK\$76.8m telephone system contract. First Pacific's Guardforce won a \$51.7m contract for a closed-circuit television system and a HK\$56.6m access control and detection contract.

A HK\$85.1m building management system and supervisory control and data acquisition contract was awarded to Control Systems International and Allen-Bradley (Hong Kong). A contract for voice and data cable valued at HK\$126.8m went to. international Computers of the UK. A HK\$44.2m passenger terminal public address system contract was awarded to Hepburn Systems of Hong Kong. Reuter, Hong Kong

Rolls-Royce of the UK has won a contract worth £32m for an electricity substation in Jordan. The substation is to be huilt by the group's Reyrolle unit at the port of Aqaba and will be linked to a new thermal power station at the same site.



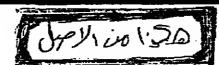
Air traffic is expected to grow steadily. In south-east England alone passenger numbers will double by 2013. That's good news for BAA and for the UK economy - provided our airports can cope.

And that's the other good news - the good news for Britain. BAA is spending more than a million pounds a day developing airports ready to meet the challenges of the 21st century. In the last few months alone it has opened

exciting new international departure lounges at Gatwick, a redesigned Terminal One and the world's first international Flight Connections Centre at Heathrow, an international pier at Glasgow, and a completely redeveloped

regional airport at Southampton.

This is a company that meets its object today but has its eyes on tomorrow. And in doing so it serves both its shareholders and the nation.



DAY JUNE

Dephol Some bord by the Corers or, and is united to Hindu nationalis h. The committee within a month le a foreign investment

ing from Mr Kenne the project would faharashtta and th thy heading a busing neo-Indian Chambas L projects were

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Minister to reject censure by ILO

Government may quit labour body

The UK government may the GCHQ case says the workdecide to pull out of the Geneva-based international Labour Organisation if it is denounced for its decision 11 years ago to ontlaw trade unionism from its communications intelligence centre (GCHQ) in Cheltenham, west-

Mr Michael Portillo, employment secretary, is believed to have secured the strong support of the prime minister. Mr John Major, for his decision to adopt a tough stance against any move at the ILO to condenm the UK.

He believes the ILO, to which the UK contributes £8m (\$12.6m) annually, is an expensive body which has spent too much time in recent years crit-icising Britain's industrial relations policies. Mr Portillo also questions why public funds should be used to pay for UK trade union leaders to attend the ILO summer conference:

The ILO's annual conference which opens today in Geneva is expected to discuss the UK government's handling of the issue. Delegates may decide to reprimand the UK for what the ILO legal experts believe to be a breach of the ILO convention 87 which protects the right of workers to join trade unions. The decision to ban trade unions at GCHQ was taken by Mrs Margaret Thatcher when prime minister in 1984:

The ILO punishment of the UK could-take the form of a "special paragraph" in the confarence conclusions, a mova normally used as an ultimate sanction against military dicta-

be a severe embarrassment to of its annual conference, which the British government. In its lasts three weeks.

report to the conference the

ILO committee of legal experts

which has been dealing with

ers there "should be guaran-

teed the right to establish and

to join organisations of their

It also urges the UK govern-

ment "to take steps to resume

discussions with the unions

with the aim of finding a satisfactory solution to all parties

The ILO committee is also

critical of the government's provision in its 1992 legislation

that prevents trade unions

from disciplining members

who refusa to participate in

lawful strikes or other indus-

trial protests. It says that the

UK government should

"refrain from any interference

which would restrict the right

of workers' organisations to draw up their contributions and rules freely".

The ILO committee says the

·UK unions should be protected

in sympathy strikes. It also

calls on changes in UK labour

laws to allow workers to be

own choosing".

concerned".

Involvement of Ian Maxwell 'minimal'

John Mason, Law Courts Correspondent



Maxwell being prosecuted for his in the well pension fund fraud

only because he is the son of publisher Robert Maxwell, a jury at the Old Bailey (London's central criminal court) was told vesterday.

The involvement of Mr Isn Maxwell in events was minimal, Mr Edmund Lawson, his advocate, told tha court. He had no experience of corporate finance and relied entirely on the advice of others including his brother Mr Kevin Maxwell and professional advisers. "He finds himself in the dock not because of what he did but because of what he is - a Maxwell and his father's son," Mr Lawson said.

Mr Ian Maxwell is one of four defendants charged with conspiracy to defraud over the



NEWS: UK

Ian Maxwell and his wife leaving the court yesterday

alleged misuse of Maxwell pansion funds assets to secure credit for the debt-laden Maxwell private companies.

It is alleged that after his father's death on November 5 1991, he conspired with Mr Kevin Maxwell; Mr Larry Trachtenberg, a former adviser to Robert Maxwell; and Mr Robert Bunn, a former deputy managing director of the Robert Maxwell Group; to defraud the pension funds by pledging shares worth £22m in Teva Pharmaceutical Ltd. an Israeli company, to obtain credit from National Westminster Bank Mr Kevin Maxwell is also accused of conspiring with Robert Maxwell to defraud the ing in £100m-worth of shares in sell some of its Scitex shares Scitex, another Israeli com-All four defendants deny the

charges against them. At the centre of Mr Ian Maxwell's defence was the fact that he was not a corporate financier. Mr Lawson said. Lacking financial knowledge, he was entirely reliant" upon those around him including Mr Kevin Maxwell, other executives and professional advisers. The Teva shares were pladged in the "commercial chaos" that followed the death of Robert Maxwell, he went on-"A thousand things had to be

done. in Ian Maxwall's case, one of the most important things had nothing to do with money. It was making arrange-ments for his father's funeral." Mr Alan Suckling, prosecuting for the Serious Fraud Office, then called Mr Trevor Cook, a director and administrator of Bishopsgate Investment Management (BIM) which handled the bulk of the

Maxwell pension funds. In July 1991, BIM agreed to

through the Robert Maxwell Group (RMG). However, BIM was to remain the beneficial owner until tha sale was completed when the funds would be paid. Mr Cook said.

The shares were finally sold in October 1991, but BIM was never paid, the court heard. Questioned about the Teva shares, Mr Cook admitted ba had been unaware at the time of some of tha transactions in which they were used.

By November 15, Mr Cook had discovered that BIM was owed £296m by RMG and began a complete review of the Investment Fund.

Mr Cook told how he asked other BIM directors about the whereabouts of the Tava shares. None of them gave him any information apart from Mr Kevin Maxwell who told him they were with an Israeli law firm. Mr Cook's staff checked twice with the law firm and were told the shares were no longer there.

The trial will continue today.

under cross-examination in the

Last month Sir Richard used

speech to the Chancery Bar

Association to state that it would be "wholly inimical to,

perhaps destructive of the

efficient conduct of his inquiry

for witnesses to be given the

right to cross-examination.

Public servants should expect

to undergo "public scrutiny and accountability".

The judge has rejected Lord

early part of the bearings.

High-tech hope of Wales calls in receiver

By Roland Adburghem in Cardiff

Race Electronics, one of the UK's biggest contract electronic manufacturers with US, Japanese and European companies among its customers, went into administrative receivership yesterday.

The private company, based near Cardiff in south Wales, had been regarded as an example of how a British business could successfully compete internationally in a high technology industry. It assembles printed circuit boards under contract. Race has a workforce of 600, mostly women, and an annual turnover of about £30m (\$47.10m).

It is wholly owned by Gooding Gronp, headed by the Weish entreprepeur Mr Alfred Gooding. He holds 56 per cent of Gooding Group, with two other shareholders, C.Itoh, the Japanese trading house, and

CitiCorp Venture Capital. Race, which Gooding bought workforce of 75 to 1,500. But in 1992 it was hit by losses of £4.8m, including a had debt of £3.5m from a US customer.

Mr Gooding said yesterday: "This whole damn industry went on a whacking downward trend in the recession and the technology changes meant you didn't need as many people for the same amount of work."

Since 1992, the workforce had been reduced by 800 and three factories closed. Last November, another Welsh factory employing 230 people was sold in a management buy-out. Mr Gooding said he shared the view of the other shareholders and Barclays, the company's bankers, not to invest

Mr Gooding's other interests are unaffected, including Goooding Consumer Electronics, which manufactures televisions in France.

In April, Gooding Consumer Electronics sold majority stakes in three satellite television businesses in the UK to Grundig of Germany.

Scottish expansion, Page 10

Paper chase delays arms-for-Iraq inquiry

pension funds over their deal-

Officials of the Scott armsfor-Iraq inquiry yesterday con-firmed that publication is to be further delayed, refuelling concern about the conduct and direction of this politically sensitive investigation.

and the basis for them.

came in boxes, in triple-sealed

envelopes and even in sacks

marked HM Diplomatic Ser-

vice'. And once the paper mountain had built up (some

200,000 pages of documents),

there began the process of sift-

ing and analysing the mate-

rial." The trail led to a "laby-

reinstated if they are singled out for dismissal after being The inquiry into defenceinvolved in a lawful strike. elated exports to Iraq in the "The continuing condemna-1980s, and alleged government tion of the UK government collusion in the breach of an over the GCHQ ban is embarrembargo, was launched in November 1992. It was due to assing for Conservative ministers", said Mr Denis MacShane, have been published last Labour MP for Rotherham. autumn; that date was later "But to move towards preparrevised to next month. ing the ground for a UK withdrawal from the ILO will shock involved an unprecedented the world of employers who paper chase in Whitehall to

are strongly represented at the ILO and on its committees". There has been mounting concern over the past few days over a number of questions about the ILO sent to Mr Portorships in the lillo by Mr Alan Duncan, a A foundar member of the ILO in 1819, the UK has never been condemned before for a what impact ILO membership has made on UK unemploystandaries such a move would ment and what is the purpose

Mr Robin Cook, the opposition Labour party's shadow foreign secretary, yesterday accused the prime minister of failing to defend the Scott inquiry from a "whispering campaign" in Whitehall designed to discredit its findings, James Blitz writes. Mr Cook said he had written to Mr John Major last month asking him to express confidence in Sir Richard, amid signs that the judge had been obliged to respond to criticisms of the way his inquiry

rinthine complex of committees and subcommittees". The investigation has involving four main departments: the Ministry of Defence, establish who took decisions the Department of Trade and Industry, the Foreign Office, and Customs and Excise; and Mr Christopher Muttukumaru, secretary to the inquiry, four intelligence organisations said yesterday: "The papers - SIS (MI6), MI5, GCHQ and

for disclosure following a

was being conducted. In his reply, Mr Major said the government was aware of concerns expressed by some witnesses over aspects of the inquiry. Instead of directly stating his confidence in the judge, the prime minister wrote: "It is for Sir Richard to determine how to respond to these concerns. The government does not expect to reach a view on Sir Richard Scott's

Defence Intelligence - each with a different story to tell. The inquiry was promised full access to all relevant material, but several key documents were not brought to the judge's attention in the early months. The inquiry has had to press

painstaking process of crosschecking and questioning of

inquiry until it has been com-

"In one case an SIS (intelligence) witness had left an important pile of papers in the corner of the room. Ha later left the service. The papers were not, therefore, coralled as part of the initial trawl, and we were not sent them until 20 months after the inquiry began," recalls Mr Muttuku-

He said yesterday the report would not be published before September, and it would come out "whether parliament is sit-

not return from summer recess legislation, as well as not until late October allowing witnesses the right to legal representation while

The refusal of Sir Richard Scott, the investigating judge, to be drawn on a precise publication date has satisfied neither the government nor the opposition. Senior members of the gov-

erning Conservative party fear that the report could be published close to the party's annual conference, the Labour party fears that Sir Richard has become a hostage to Whitehall manoeuvrings, and that his report has been "kicked into the long grass of a recess". These criticisms come

against the background of a whispering campaign against Sir Richard by senior Tories and Whitehall officials. The campaign surfaced last year when Lord Howe, former depnty prime minister, accused Sir Richard of acting as "detective, inquisitor, advocate and

Lord Howe has subsequently expanded his attacks, arguing that the judge has brought difficulties on himself by not seeking early expert advice on

Howe's suggestion that the essential unfairness and inefficiency of the inquiry has been brought about by an insufficient level of participation by further capital. lawyers and the absence of 'expert" lay assessors.

Sir Richard bas become weary of what he sees as attempts at obfuscation by some witnesses. In his lecture last month be delivered a thinly veiled swipe at one former minister when referring to the "tediously lengthy correspondence" he bad with his

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Cinema for premieres of British films will compete with launches from Hollywood

Government to boost film industry

By Raymond Snoddy

Mr Stephen Dorrell, the senior minister responsible for the arts and media, is expected today to support pleas for a new central London cinema where British films can be

His support will be part of a modest package of measures designed to belp the Britisb film industry. It could lead to the creation of a big London showcase for the launch of British films, which is now often difficult because of the dominance of Hollywood productions.

The new cinema would be run by a trust. A number of organisations such as the BBC have been approached to see win what it wants most. That sions proposed when the House whether they would take part. is a cut in the withholding tax of Commons heritage commit-

the organisation nting the \$700m-a-year Pact. independent production sector, is preparing legal cases against the publicly funded BBC to present to the Office of Fair Trading and the European Commission. Pact - the Producers' Alliance for Cinema and Television - believes the BBC is in breach of competition rules in its trading relations with the independent sector. It says it is running out

although the proposals for the structure have not yet been completed. The proposal is due to be unveiled today with other plans designed to help the British film industry.

The industry is unlikely to

of patience with the BBC after 18 months of negotiations to secure equal terms to those offered by commercial televi sion companies. When the companies commission a programme from an independent producer, they usually buy the right to broadcast the programme twice within five years. The BBC usually buys all rights to a production and then exploits them interna-

on 25 per cent of the earnings of non-British actors working in the UK and the ability to offset more production expenditure against tax when the money is spent.

tionally.

These were among concessions proposed when the House

tee reported on the British film industry in April. Both are issues for the Treasury to

Mr Dorrell is likely to sug-gest that he sees merits in both issues and commend them to the Treasury for serious consideration. In the past Mr Dorrell, a former Treasury minis-ter has been opposed to special concessions for the film indus-

Ha is expected today to draw the attention of the City of London to the importance of the investment opportunities presented by the expanding audiovisual industry. The main announcement for the film industry will be the creation of a mechanism that will allow National Lottery funds to be used to support commercial

today's announcement the Arts Council is expected to be free to allocate significant lottery funds to the film industry.

There is also likely to be an easing of the restrictions on employing actors from outside the UK. Although Mr Dorrell's announcements are likely to fall well short of the film industry's best hopes they are likely to be welcomed as the most positive to emerge the British government for some

The industry now hopes it can look forward to November's national Budget announcement with a realistic hope that the tax position will be improved so that the UK can compete better with countries which offer a wida range of incentives to attract the

UK NEWS DIGEST

Drivers say best cars are German

Only 13 per cent of Britons think the UK makes the world's best cars, according to a survey by Market Opinion Research, a UShased research and consulting group. By con-trast, 54 per cent of respondents said they thought the best cars were made in Germany. followed by 17 per cent voting for Japan.

The survey showed that BMW, the Munichbased cars group which now owns Rover, Britain's last indigenous volume car manufac turer, was seen as the world's most successful carmaker. However, Mercedes-Benz, BMW's arch-rival, was ranked higher in terms of qual-ity. Some 33 per cent of those asked gave Mercedes precedence for quality, while 21 per cent placed BMW first.

In spite of the accolades for the German manufacturers, only 17 per cent of respondents said they were completely satisfied with their cars, while 4 per cent said they were either somewhat, or very, dissatisfied with their

Haig Simonian, Motor Industry Correspondent

Trade union leader renounces 'old ways'



Trade unions will not claim an "inside track" in their dealings with a future Labour government, Mr John Edmonds, general secretary of the GMB union, told its annual congress. He said unions had to face the fact that there would be no

attempt to put the clock back to the 1970s. "We should admit that the old ways did not serve us well," be said. "The government tried to use the trade unions to keep down wages, and the trade unions pretended cosying up to the government would produce special favours. It was not an bonest relationship and it did not work". The Labour party was last in power from 1974 to 1979 when it was defeated by the Conservatives led by Mrs Margaret Thatcher. Mr Edmonds said be had no reason to quarrel with Mr Tony Blair, the present Labour leader, when he promised the unions fairness but not favours. "After 16 years of hostility and persecution, trade unionists would welcome a bit of

Andrew Bolger, Employment Correspondent

Number of business failures rises unexpectedly

The number of business failures in Britain jumped unexpectedly in the first quarter of the year as company profits were squeezed by rising raw material costs, industry figures

showed. The figures came after several quarters of steadily falling insolvencies and provided a further hint of a slight slowdown in

the business recovery.

Nevertheless, the Trade Indemnity group, which collected the data, pointed out that the level of insolvencies was still lower last year in most regions. Trade Indemnity, a credit risk management group, said there were 840 business failures in the first quarter of 1995 in Britain. There were 671 in the last quarter of 1994 and 1037 in the first quarter of 1994. Gillian Tett, Economics Staff

Many more trucks use Channel tunnel

Eurotunnel's freight sbuttles carried more than 28,000 road trucks through the Channel tunnel between England and France last month. That made Eurotunnel, operator of the tunnel, market leader on the Dover-Calais route with 35 per cent of the heavy goods vehicle market, the company said yesterday. The number of trucks carried rose by 35 per cent from the April figure, bringing the total in 1995 to 113,823. A daily traffic record of 1,351

trucks was set on May 23.

Eurotunnel said 99 per cent of trucks were able to board the first sbuttle departing from the terminal. The company operates a turn-upand go service with customers able to book a day of departure but not a specific train. The number of long-distance freight trains operated by British Rail and the French and Bel. gian railways also increased, to 465 trains in May from 404 in April.

Charles Batchelor, Transport Correspondent

Maker of circuit boards to expand in Scotland

Prestwick Circuits, a Scottish manufacturer of printed circuit boards, is investing f5m (\$7.85m) on expanding production over the next two years. It expects to increase sales by up to 50 per cent over the next 12 months from the current level of about £30m and to add 120 jobs to the existing 600.

The company, which is quoted on the stock exchange as Prestwick Holdings, has been in the care of Postern, the corporate recovery specialists, since early last year but returned to profit in the second balf of 1994.

James Buxton, Edinburgh

Thieves fall out: A thief was restrained by his accomplice when he tried to rob a betting shop a second time. A court beard that 30-year-old Michael Smith of east London returned to the William Hill shop because be had found it so easy to persuade staff to hand over money the first time. On the second visit the accomplice appeared to have "a change of heart", a prosecutor said. "He wrestled Smith to the ground in a headlock . . . and that's bow police found

Country calt: Trees and traditional rustic signposts should not be swept away when country roads are modernised to accommodate increasing traffic, said the Countryside Commission. It condemned "the suhurbanisation of the countryside by the use of designs more appropriate to urban areas and trunk roads."

State widens search for corporate bidders

By Andrew Adonis, Public Policy Editor

Barely a week passes without the government trumpeting some new advance in its mission to hand responsibility for providing government services to the private sector.

Prisons, bospitals, roads. railways, information technology - all have featured. Even the Treasury's own citadel on Whitehall may be put in private bands by Mr Kenneth Clarke, the chancellor of the exchequer. He is looking for a company which will pay for modernising the dilapidated Victorian building and then lease office space back to the government.

Few fields of government responsibility are considered no-go areas for the private sector. Not even the police are immune. Their job of ferrying prisoners between jails and the courts is being progressively transferred to private security

companies. Last week alone saw the announcement of private contracts for "core" government work worth about £1bn (\$1.6bn) in total. The Prison Service awarded contracts to consortia headed by Group 4 and Securicor to design, construct and run two new pris-

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ons. The Department of Social Security awarded a string of information technology "outsourcing" contracts to three computer services companies. They will take over operation of the department's four area computer centres, including the several thousand staff

employed in them. These contracts followed hard on the beels of a £150m seven-year deal between the DSS and Andersen Consulting for the development and operation of the department's new

National Insurance Recording Before many years, private finance will be the usual way of

Computer System. Many of sion of assets and the managethese contracts are being pursued under the government's "private finance initiative". Mr Clarke forecasts that PFI contracts totalling £6bn will be signed this year from a list of about 600 potential projects. He said: "I foresee that, before many years, private finance will be the usual way of meeting the government's capital

spending requirements." Two important features of

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They are the search for private-sector bids to provide capital assets for the government, and contracting out of the provision of state services to the private sector. Private companies, under

contract, have long provided central and local government with everything from rubbish collection to state banquets. What makes the PFI distinct is the decision to make a privatefinance test the first recourse for almost all government capital projects, and a determination to contract out the provi-

ment of the service - such as a

meeting the government's capital spending requirements'

prison or the fast Channel tunnel rail link to London - as a single package. Supporters of the PFI claim that this offers the government greater value for money. They say it draws more heavily than before on private sector innovation and competition and it enables ministers to transfer expensive risks - such as demand for services - from the the PFI are far from novel.

Sir Alastair Morton, who heads the Private Finance Panel, a ginger group established by the Treasury to accelerate the initiative, claims that this gives the private sector a significant role in sectors not reached by the great industrial privatisations of the Thatcher

Many academic commentators are critical of the PFI, claiming that the transfer of risk is often marginal, and that in cases such as road construction the taxpayer could end up paying more through the PFI than through conventional funding routes.

However, ministers insist that real savings are on offer. They cite the long overrun involved in public sector capi-tal projects and the large reductions in the cost of service provision which the pri-

vate sector is able to offer. Mr Derek Lewis, directorgeneral of the Prison Service, estimates that over the lifetime of their contracts, the two new PFI prisons could cost the government more than 25 per cent less than proceeding with two new public sector prisons. He highlights the transfer of risks such as prison design and the unavailability of places because of riots, and the greater efficiency of private operators in providing custody services.

The opposition Labour party endorses the PFI. Although it attacks the decline in public investment over the past 15 years and objects to privatesector involvement in such areas as the management of prisons, its criticisms are otherwise muted.

Mr Gordon Brown, the party's shadow chancellor, told an investment conference last week: "The government's mistake is to see the PFI as an opportunity to abdicate government responsibility for modernising the infrastructure rather than as a vehicle for a partnership between public and private sectors to increase overall levels of investment."

He proposed a new "task-force" to broker new public/-private agreements. But be was careful to state that this would be based around the existing Private Finance Panel chaired by Sir Alastair.

So there is a broad political consensus behind the PFI and its philosophy. The big question is whether in important areas such as transport the private sector is prepared to take on significant new risks for prices that will make the PFI worthwhile to the taxpayer.

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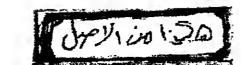
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enders are therefore invited from Corporations, Agente, entatives or individuale in the related industry. pasted tenders should submit their bids in sealed

metabout tenjues should submit their bids in seated metaboes addressed to. The Purchasing Agent, Associated lighters Company Ltd. 691D North West 42nd Street, dress Box 131 Milant; Florida: 33 166-6821 Complete set of bidding documents may be obtained by a purchasited bidder on the submission of a written

incation to the above and upon payment of e nonpromise rée of \$250.00 US. Additional documents may be obsessed from the same address, each et the same price. condition for participation in the tender.

Payment should be made either by cash or certifled bankers cheque to: Associated Suppliers Company Ltd. 6910 North West 42nd Street, Express Box 131, Miami, Florida

All bids must accompanied by a security deposit of 5% of the bid value in the form presented in these documents and must be delivered to the above office on or before 12:00 noon local time on Friday 21st day of July 1995.

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Reference no of tender is 252.

Within the envelope we request that the following documentation has to

Finn's licence. Bank confirmation for the firm's existing account. Bank Confirmation that 2% of the total value of the offer is

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approving a form of Contract providin

for the purchase by the Company of 5,000,000 of its "B" ordinary shares of £1

each for the aggregate sum £7,530,000;

Anthorising the payment of £7,169,354 of the said sum out of capital

The Stantony Declaration of the Directors

of the Company and the auditors report required by the Companies Act 1985

Section 173(5) are available for inspection at the Registered Office of the Company at 191 Garkby Road, Troog Industrial

Any creditor of the Courpany may at any time within the five weeks immediately following 34st May 1995 apply to the

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KPMG Corporate Finance

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ROBOTICS AT WORK: Robots are better behaved than ever before. They move faster, reach higher, and carry heavier loads, and prices are falling.

Andrew Baxter introduces a series that looks at their use across industry - the trends and latest applications.

Reaching further into industry

of as dark satanic mills devoted to a centuries-old industrial black art - the last place on earth, in fact, where one would expect to find robots at Yet it was in a Ford die-casting

foundry that one of the first industrial applications of a robot was recorded more than 30 years ago. Since then, few robots have been used in the industry, but things are

Over the past few months, Ford's Windsor plant hased in Canada, overlooking Detroit, bas turned itself into what is claimed to be the world's most fully automated aluminium foundry. It uses more than 100 robots from ABB Flexible Auto-mation, one of the world's largest suppliers.

Progress is being made in other industries, but much more slowly than predicted 20 years ago.

Like the foundry, the non-automotive users are often suppliers to the carmakers. This is partly a function of economics and labour. Countries with labour shortages and relatively inflexible workforces, such as Japan, bave taken to robots much more extensively than those with lower costs and abundant

Until the early 1980s, robots were considered too expensive by many potential users, performance fell short of vendors' claims and service level standards were low.

Inadequate programming and planning also often caused collirounding equipment. In a few cases, products were redesigned to make them easier for robot assembly, but then moved to a low-cost country to

There are many ways to automate without using robots. The European white goods industry, for example, is highly automated and efficient without the extensive use of robots. This may be because assembly of an appliance involves only a small number of spot welds, making the investment of robotic assembly dif-

ficult to justify. For many industries, production batch size restricts the use of robots, says Arthur Collie, a leading robotics expert and industrial professor at the University of Ports mouth. "You would not use a robot for producing a batch of 10, and if

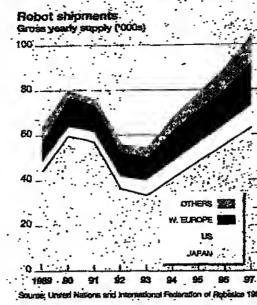
you were making 100,000 you might

consider moving production off-

But there are opportunities for low-cost robots in light assembly And the affordability of modern robots means suppliers' penetration of western, non-automotive markets is possible.

Since around 1982, robot prices have fallen in real terms by 30 to 40 per cent, says Bruce Potts, presi-dent and chief executive of Fanno Robotics Europe.

Credit, he says, has to be given to the automotive industry. Economies of scale that have come from supplying thousands of robots for spot welding on car production lines Rising global shipments



Number of robots per 10,000 persons employed in industry

have brought prices down, benefit-ing other industries.

There has also been a dramatic improvement in functionality and ease of use. A decade ago, the robot industry was offering general pur-pose machines, says Potts. But in the 1990s, robots have increasingly heen designed for specific applications, and recent software improvements have enabled easier applica-tion of robots to particular tasks.

Fanne's new robot for loading and unloading pallets, launched in February, illustrates how the industry is trying to encourage interest among prospective customers. A complete rethink of the design has reach higher, and carry heavier them to consider the investment." loads than its predecesso Such developments are attracting

small- and medium-sized compaules, creating a largely untapped market for suppliers. A handful of medium-sized com-

panies have been anthusiastic robot users for years, Somerset-based Clares Merchandise Handling Equipment, which makes supermarket shopping trolleys, installed its first robot in 1976. It now has 25.

Recently, says Guido Venturini of Italy's System Robot Antomazione company: "A lot of SMEs are becoming interested in this type of equipment. From an economic point

advanced robots. Similarly, there are buge

and drink sector - growing from a small

expansion of robotics is enormous.

the robot population would increase

other sectors lagging behind or - like the food

This is why the IFR believes the potential for

approach the robot densities found in Japan and

excluding the potential for robots in the service

adjoining article shows, the robot industry will

if industry in general were to reach only half

the robot density of the motor vehicle sector.

dramatically. This would be the case even

The "ifs" may be very hig but, as the

try to make at least some of the predictions

If other industrialised countries were to

Optimism as industry starts to revive

and engineering.

The use of robots in many western countries is unlikely to reach ahead when measured on robots of all types or variations across industry worldwide, with the motor industry and its parts suppliers accounting for at least half of robot sales, and

> solutions, says Plancbock. Colin Cooper at ABB Flexible Automation in the UK says health

Regulations limiting the extent to which workers can reach forward to pick up boxes, for example, has led to robots being used for packing

and palletising.

Producers of cycles and motor-cycles, television tubes, electric

of offshore platforms et Clydebank

bility of robots, particularly when being re-used for a new task, is probably more important than their affordability. A robot is a big investment, and

such an outlay is more likely to bemade by an SME when it is running two full shifts a day, says Peter Planchock, Fanuc Europe's vice-president for sales, marketing

Massimo Mattucci, marketing and

product development chief at

Comau, Italy's best known robot

supplier, says about half of the

robots it produces are going to

medium-sized companies, producing

everything from valves to furniture

Mattucci, says the improved flexi-

and door handles.

levels seen in Japan. But there are still plenty of opportunities to be grasped, says Potts, in industries such as food and food processing. The ever-increasing variety of food products and their packaging will force greater flexibility in process-ing, and that should benefit robotic

and safety regulations are leading to a greater interest in robots by the food, beverage and confectionery

tools and lawnmowers are also beginning to show interest, Cooper

ers want to buy a robot as part of an automation package. An example is a contract announced by ABB last month for a robotised system to cut beams used in the construction based UiE Scotland. This robot will use a 3-D probe to measure the beam, match the dimensions with the stored design data, then pick up a gas torch to cut the beams to

Many robot producers believe the automotive industry still offers growth prospects. Use of robots may not be growing in the main body. and white" assembly areas, says Mattucci, but there should be opportunities in the relatively unrobotised final assembly area. This be says, is likely as the number of operations are reduced, ...

Cooper says demand for robots is owing in the automotive supply. industry as car makers outsource more work and increase demands on component makers. Makers of plastic components such as bumpers and mirrors, for example, are buying robots to paint components in colours that match the bodywork. Robots are also being used to wield powerful waterjet cutting equipment - possibly dangerous. and less accurate when operated manually - for cutting carpets and nterior trim.

Robots may not yet have dramatically changed the face of western industry, but they clearly have an opportunity to extend their influence - so long as they and their producers do not overreach them-

Next month this series will look at robotics in space.

By 1993, the market had plunged to just

1990, according to the annual figures produced by the United Nations and the International Federation of Robotics. ,200 units, with most of the decline coming in 1992, when recession-hit industrial customers to

Forecasts in many industries tend to get drawn

confidently, up a graph while blithely ignoring

So it would appear with industrial robots, a

world market that was growing strongly in the late 1980s, reaching a peak of 79,500 units in

as a straight line rising besitantly, or even

the evidence of past "booms" and "busts"

the main robot-using countries cut back sharply on their investments Still, the signs are thet optimistic projections now being made for the industrial robot market could prove correct, at least for the next three or four years. The official inrecast was for 24 per cent growth in global robot sales last

rises of about 17 per cent for this year and 15 per cent for 1996 and 1997. The decline in the market bottomed out in

year, to 67,000 units, followed by further

1993 and was followed by a strong recovery last year, for which complete figures are not yet

All the major regions of the world, except Japan, saw shipments rise in the last three quarters of 1994, with particularly strong growth in the US. For the first half of this year, even Japan was forecasting that sales would rise. Further growth of 10 to 20 per cent is predicted for the US and western Europe.

If the forecasts are fulfilled, annual sales would be running at 103,500 units in 1997. The world stock of industrial robots would increase from about 611,000 units at the end of 1993 to 831,000 at the end of 1997, says the IFR. Of these, 478,000 would be in Japan, 78,000 in the US and 153,000 in western Europe. At the same time, even in a best case scenario

the number of employees in industry would be stable or grow nuly modestly, so the density of robots - as measured by the number per 10,000 workers - would continue to rise.

As the charts show, there are some big differences in robot density, with Japan way

Palmer takes chair at DEC

Robert B. Palmer, 54, has become the first chairman of Digital Equipment Corporation (DEC). Digital, one of the world's biggest computer companies, was founded by Ken Olsen in 1957 with a \$70,000 loan from Georges Doriot. It went public in 1966 and Olsen. who had the title of president, headed the company until 1992 when Palmer succeeded him as president and chief executive. Palmer, who joined DEC in 1985 as manager of the semiconductor operations, remains president and chief executive. ■ Jukka Viinanen is to be chief operating officer of Fin-land's Neste from July. The state oil and chemicals company has reorganised its management structure and divisional boards are being discontinued. All divisional senior executive vice presidents join a new corporate management committee chaired by Vinanen. Jaako thamuotile continues as chair-

man and chief executive. ■ Kurt Noesslinger, governor of Austria's Postsparkasse, or post office savings bank, snc-ceeds Klaus Liebscher as president of the Vienna Stock Exchange. Noesslinger, who sits on the bourse's council. will be an interim replacement for Liebscher, who has become head of Austria's central bank. ■ John A. Roth, currently president, moves to chief oper-ating officer and president of Northern Telecom (Nortel) North America from July. He will assume responsibility for Bell-Northern Research (BNR), Nortel's research subsidiary. David Winfield, currently Canada's Ambassador to Mexico, becomes senior vice president, government relations. ■ Donald T. Sullivan, 51, vice

president of General Motors' Tokyo affiliate, Isuzu Motors, becomes vice president in charge of GM's Asian-Pacific operations. He succeeds Thomas S. McDaniel, 56, who is retiring. ■ Gilles Pelisson, 38, is joining

president (directeur général adjoint). He will oversee all aspects of the company's theme park and resort operations. Prior to joining Euro Disney he was co-president of Novotel Hotels. Peter Johnson, director of worldwide research & develop-

ment at Fisons, has joined Sweden's Astra group as senior vice president, corporate research and development. This follows the completion of the sale of the majority of Fisons' research and development operations to Astra.

■ Max Katz, 40, finance and information technology director at brewers Hurlimann in Zurich, joins Knoni Travel in December as finance director. ■ Gordon Campbell, deputy chief executive of Courtaulds becomes president of CIRFS (Comité International de la Rayonne et des Fihres Synthétiques), the representative body for the European man-made fibres industry. ■ Edwin H. Reitman, who has been with UPS for more than 25 years, has been appointed president of UPS-Europe, with responsibility for Europe, the Middle East and Africa.

■ Michael Chaney, managing director and chief executive of Wesfarmers, bas joined the board of BHP. ■ Charles A. Sanders has

resigned as an independent director of Merrill Lynch. Richard F. Frisch, 47, becomes vice president, human resources, at Boweter Inc. He joined in 1994 after 14 years with Scott Paper.

■ Peter Thompson, currently senior general manager of First National Bank of Southern Africa, is appointed chairman of Visa International's newly formed Central and and Africa (CEMEA) regional board. Farid Saab, executive director of Arah Financial Services (Bahrain), and Ivan Remsik, director of Zivnostenska Bank in the Czech Republic. become vice chairmen. President of the new region is Anne-L Cobb, who is presently general manager of Visa's

European Product Office. ■ Rafael V. Farace bas replaced James C. Keavney as chief financial efficer of Bne-nos Aires Embotelladora, the biggest Pepsi-Cola bottler outside the US. Robert G. Jackson replaces Farace as regional manager of the group's Argentine franchise territories

International appointments

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Treatment of equal pay



tice last week confirmed that the European equal pay princonfirmed that 1975 equal pay - directive apply

to piece-work pay schemes. where pay depends on individ-However, the Court said

be objectively justified by The ruling was given in

facturers. The questions asked arose

out of the specific circumgroup which had been higher than both.

Royal Copenhagen has 1.150 staff divided into three groups: workers. The turners consist of sub-groups such as automatic mental-plate painters (51, all

the same collective agreement and are paid on e piece-work basis since pay is wholly or partially dependent on individual output. An option exists to be paid at a fixed hourly rate. Seventy per cent of turners

Automatic machine operators account for 18 per cent of all turners paid by the hour (average DKr103); the hlue-pattern painters account for 49 per cent (DKr91) of painters paid plate painters 16 per cect (DKr116).

The plaintiff union considered the equal pay principle was infringed because the average hourly plece-work pay of the hive-pattern painters (all women, bar one) was less than the automatic-machine operators (all men). The ECJ said that in the piece-work situation, to be equal, pay had to be calculated on the basis of the calculated on the same measurement unit. A difference in average pay was not to prove sex discrimination.

However, when the fixed element differed according to the group of workers concerned and it was not possible to identify the units of measurement used to calculate the variable used to calculate the usual burden of the usual burden proof on employees to prove sex discrimination could be shifted to the employer to prove that the differences were were objectively not due to sex discrimination justified.

In this context, to ensure that the pay comparison of two employee groups relates to comparable situations and that pay differences are not purely fortuitous, short-term or sime ply due to output differences, the national court must take into account factors such as the comparability of the nature of the work, training require ments and working conditions.
Similar factors must be MSTERDAM mine whether the two types.or work are of equal value and whether the circumetances themselves are objective factors unrelated to sex discrimination which justify the pay

In addition, although the equal pay principle also applies to collective agreements. the national court may take into account the fact that the pay elements are agreed through collective bargaining or by negotiation at local level to determine whether different average pay levels for work of equal value are due to such discrimination.

C-400/93. Specialarbeiderforbult det i Danmark v Dansk Indus tri. ECJ FC. May 31 1995

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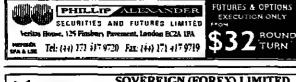
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Notice of Annual General Meeting of Shareholders

be held on Finday June 23, 1995 at 10:00 a.m. (Curação time) at De Ruyterfude 8A, Curação, Netherlands Antiles, Subject of the meeting will be atmongst others the approval of the Annual Accounts of the Company over the financial year 1994.

Notice of Meeting of holders of 7¼% Guaranteed Redeemable Convertible Preference Shares 1994/2005

To be held on Tuesday June 20, 1995 at 10:00 s.m. (New York time) at the offices of Neuta Dutlih, altorneys, 101 Park Avenue, New York, NY, 10178 U.S.A. Subject of the meeting will be amongst others the delegation to the Committee of Preferance Shareholders of subject of pursuant to Article 16:16 of the Articles of Association of the Committee of Association of the Articles of Association of the Committee of Association of the Articles of Association of Associat capies of the agencia and other documents revevant to each meeting are available and copies thereof may be obtained by shareholders of the Company entitled to attend the meeting at the office of the Company et De Ruyterkade 58A, Curação, upon satisfactory proof of (preference) shareholdership. Copies of the agenda of each meeting will also be matted to holders whose Preference Shares are deposited in an account with Euroclear or Cedel.

Preference Shareholders who with to attend and, to the extent entitled Disreto, to tole at the meeting must deposit their shares with the Principal Paying Agent, The Chase Manhallan Bank, N.A. at Woolgate House, Coleman Street, London EC2P 2HO, United Kingdom, either directly of through Euroclear or Cedel, order to Friday



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INTERNATIONAL PEOPLE

Court of Jus-

EUROPEAN ciple and the

ual employee output. national courts had to take a number of factors into account depending on the particular circumstance of the case in deciding whether different pay levels were unlawful or could

response to questions from the Danish Arbitration Board In proceedings between the Dan-ish semi-skilled workers union and the confederation of Danish industry, acting for Royal Copenhagen, the china manu-

stances of Royal Copenhagen employees. In particular, the national court expressed con-cern that, through reliance on the equal pay principle, unrepresentative groups of female pay to the higher level of other women employees first by comparison with a group of male employees which in turn could claim pay increases to the higher level of the female

turners (200), painters (453), and the belance unskilled machine operators (26, all men); the painters, sub-groups such as blue-pattern painters (155 women, 1 man) and orna-All employees are covered by

and painters are piece paid.

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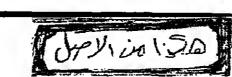
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Polemics rather than painting

William Packer reviews the work of Jörg Immendorf and Guillermo Kuitca

go from the Sum-mer Show of the king. Royal Academy to the current individual shows of work by two foreign painters, the hished international reputation, the other a young and emerg-ing Argentinian, is to have me to police property borne in npon one the gulf that exists in modern painting between public establishment expectations and private practice. The Academy, after all, is nothing if not the celebration Aff. Sections of what the artist does for him. self on his own terms. It does at least give us a great deal of painting that, whatevar its quality and kind, is at least engaged with painting as

What we find at the Barbican, with Jörg Immendorf, and even more so with the young Guillermo Kuitca at the White-chapel – filling two of our most prestige-laden public spaces for the showing of paintings + hardly counts as painting at

Rather it is, if anything, a kind of anti-painting, but not in the sense that it makes conscious attack noon old accepted values - ugliness for beauty, crudeness for felicity, meptitude for skill. No. What is evinced, rather, is a total indifference to such values. Painting as painting does not

come in to it. . The irony is that just now and again, when the mask of -- indifference slips a little, or when they simply forget themselves for a moment, both artists show that they are capable of painting very interestingly indeed. There (21) are one or two small studies in water-colour by Immendorf that are fresh and uninhibited in their intuitive expression-ism, while Kuitca might almost begin to relish the drawing and painting of his twists of thorns. for their own sake, if only he

would forget the public atti-

But then the message is everything. Immendorf was a pupil of Joseph Beuys and has heen an associate of such heroes of 1980s international modernism as Baselitz, Lupertz and Penck. He is a radical Marxist. In short he has the right credentials to persuade us to take him seriously as a modern master, whatever he does, and I am not yet saying we should not take him seriously. His own particular heroes, after all, are William Hogarth and Max Beckmann hoth wonderful painters as such, for all the polemical nature of so much of their work. All I note is that with immendorf, as with so many of our latter-day masters, the polemic, the story, the statement would seem to he enough, and who cares about the way it is made.

He has taken from Hogarth

and freely adapted the story of

the Rake's Progress, which is fair enough, but instead of the comparatively small scale and regularity of the original, he has used huge canvases of irregular dimensions that would be impressive for their size alone whatever their purpose. It does all rather miss the point. The actual images he has laid in with the consistently mannered, undifferentiated and supremely confident facility of the commercial illus trator, full of tricky detail and glib allusion. There is no evident curlosity at what he himself has done, no surprise, no intuitive working of the surface, no development or exploitation of painterly suggestion or opportunity. The pity is that clearly he could do all these things, and so much more. As it is, give me Beckmann, and Hogarth, every time.

Kuitca's case is both worse and more hopeful, for while he has rather less of technical facility and panache, he is also



In homage to Hogarth: 'The Rake', 1994, by Jörg Immendorf

less complacently set in his ways. His work again is conventionally large, hnt is of several kinds. The show is a retrospective of sorts, and begins with a series of somewhat theatrical compositions in which tiny figures enact their ambiguous parts upon a huge and all but empty stage. The mood is dark, the inference symbolic and surreal - a bed, a chair, an embrace, a corpse, a visitation of an angel. The drawing is remarkable in its clumsiness, the manner of it,

There is then a group of paintings in which the particu-

to put it at its kindest, four-

lar image consists simply of the seating plan of theatre or stadium, neatly drawn and minutely numbered. And there are innumerable paintings again we use the word advisedly - of details of maps, much inflated, with-their surfaces selectively pressed in and held with upholstery buttons. The upper gallery is indeed largely occupied by several dozen mat-

tresses treated in just this way. The final group is the most interesting, a series of images upon the idea of the crown of thorns, carefully drawn and lovingly painted. Though the formal structure occasionally harks hack to the artifice of the map or plan, one does begin to sense, or hope, that this work will lead to something more open in its possibil-ities, more truly personal in its

feeling, and so much less

self-conscious and portentous

in the public attitude it strikes.

"Here is simply a work of art", it should say: not "here is a modern artist".

Jörg Immendorf – the Rake's Progress; the Barbican Art Gallery, Barbican Centre, Silk Street EC2, until August 20. Gnillermo Knitca: Whitechapel Art Gallery. Whitechapel High Street El, until June 25; supported by the cul-tural affairs department of the Argentine foreign ministry, the Horace W. Goldsmith Foundation, and Peter Kellner.

the mouth gaping open when listening; an exaggerated hlink; and tics of the head and entire upper body. Each of them individually is expressive; but they have already become very Shaw's exaggerations cancel

Also, since she has developed a

quantity of mannerisms alarm-

ingly large in an artist still in

her 30s, she desperately needs

a director who will pare those

tricks out of her acting. These

include: shallow and noisy

breathing; sniffs galore; an array of staccato half-laughs;

Theatre/Alastair Macaulay

Fiona Shaw as

Richard II

The prospect of Fiona Shaw as Richard II,

directed by her fre-

quent colleague and

intimate Deborah Warner, has,

for months now, caused ner-

vous clucking in theatrical cir-

cles. Shaw has a penchant for

maximising the martyrdom of a role to the point of masochis-

Well, cluck ye not. Neither

Shaw's performance nor Warn-er's production is moving - but

there is no cause for scandal.

The irony is that Shaw is the

least harmonious element in

the staging; and often tha most irritating. Much of what she

does is compelling and

unusual; everything Warner

pnts around her is elegant and

Shaw's Richard is Pierrot-

like; a witty, charming, but

melancholy hoy king whose

intense nervous system is

larger than his capacity to rule. You believe in "his" mas-

culinity in the way that you

accept Octavian in Der Rosen-

kavalier - i.e. with a suspen-sion of disbelief.

"He" treats his wife with

courteous but distant chivalry.

For his cousin Bolinghroke,

however, he entertains marked

partiality: a fascinating ele-

ment to complicate the story.

In turn, he causes a similar

fondness not only in his loval

cousin Aumerle but in disloyal

Bolingbroke also. And so the

Richard-Bolingbroke political

antagonism hecomes charged

with personal tenderness, even

with sexual attraction. Which

is finely achieved: neither

Richard nor Bolingbroke dem-

onstrate one simple emotion

about the other. It becomes a

tragedy of history that cousins

so fond are sundered by politi-cal motives. A tragedy of psy-chology too: Richard, turning

from monarch into victim, only

grows in neurosis. So far so

You can tell, throughout

Shaw's Richard, why she has

been called a great actress.

intensity, audacity, imagina-

tion, eloquence, wit she has

them all in ahundance. She

wholly controls the big scenes,

chiefly by means of constantly

changing dynamics: the finest

and best-concealed weapon in

But she has no stillness

whatsoever. And she exagger-

her large technical armoury.

lucid: all of it is intelligent.

out her expressiveness. Though she can give lines an inflection we never expected, she seldom brands her utterance onto memory. Her inter-pretations, though original, have a quality of self-conscious revisionism in them. "How novel," you think; seldom "How right." In this respect she is wholly outclassed by the transparent acting of Michael Bryant as the Duke of York and Paola Dionisotti as the Duchesses of Gloucester and York (and, briefly, as a lady-in-waiting to the Queen). Julian Rhind-Tutt as their son Aumerle provides a nicely neurotic characterisation. David Threlfall's Bolingbroke is quietly assured, but often slightly too detached. As his father, dying John of Gaunt, Graham Crowden has authority, menace, and the kind of twanging old-fashioned vihrato that almost throttles the lines. Brana Batic as Queen Isabel is poignant and eloquent to the extent that her Yugoslav accent allows the lines to be

Hildegard Bechtler, designing, has turned the Cottesloe Theatre into medieval choirstalls of glowing heauty - most of the audience is seated as if in the choirstalls - and as we gentle "period" choral music of the play, mainly occurring in the broad central aisle, is finely fitted to the space. This is, in part, a sensuous production, where the fine detail of costume fahric is close enough stage in a few strokes becomes a court, or a tournament, or a cell is superh. A cool and tranquil frame, in which the restless and overwrought spectacle

intelligible.

ates. The way she sways all her weight onto her advancing leg, like a teenage boy trying to be more butch than he is, is crude; and her utter lack of In repertory at the Cottesloe repose when either speaking or Theatre, South Bank.

sit down Arturo Annechino's gently fills the air. The action to ravish the eye. The way the

of Fiona Shaw makes a pecuhar impression.

Sunset Boulevard' scoops Broadway's Tony awards

ir Andrew Lloyd Webber over a summer, Love! Valour! Comreceived yet more ornaments for his mantelpiece in New York on Sunday when Sunset Boulevard won a Tony, Broadway's equivalent of an Oscar, as best musical of the year.

There was actually little competition, with Smokey Joe's Cafe the only other new musical opening on Broadway during the year. Sunset's star Glenn Close took the Tony for best actress in a musical for her critically acclaimed performance as fading Hollywood star Norma Desmond, and Sunset Boulevard naturally picked up awards for best musical score and

As has become traditional, the British made their presence felt at the ceremony. To no one's surprise Ralph Fiermes was nominated best actor in a play for his Hamlet. But the UK lost out when Tom Stoppard's Arcadia was pipped as best play by Terrence McNally's study of eight gay men

passion! Cherry Jones took the best actress Tony for her performance in The Heiress, an adaptation of Henry James's novel "Washington Square" The play also received a Tony as the best revival, and its director Gerald Gutierrez was voted best director. Show Boat won in the best musical revival category, and Matthew Brodcrick was reckoned to be best actor in a musical for his part in one of the many revivals, How to Succeed in Business Without Really Trying.

There was a distinct lack of tension at the awards ceremony. Only 28 productions opened on Broadway in 1994-95 as against 37 the previous season and half of these were revivals. But audiences reached a 12 year high at 9.3m. They paid a record m at the box office - mainly to see long running musicals.

Antony Thorncroft | ital 21 years earlier.

Concerts/John Allison

Gergiev galvanises the RPO

he latest two instalments in the Royal Philharmonic Maryinsky-Kirov Series brought the Kirov Opera's dynamic chief, Valery Gergiev, to the Festival Hall last week. Gergiev is, of course, most in demand conducting his native repertory - a gala, semi-staged performance of Prince Igor has just been announced for the Albert Hall in October - hut his musical horizons are wide and it was good to hear him in non-Russian, non-operatic works.
Indeed, Gergiev seems to have a

special affinity for French music, and it was neatly appropriate that a series designed to reflect something of St Petersburg's cultural heritage should take in Berlioz's Romêo et Juhete: the composer included excerpts from his "Symphonie dramatique" in the last concert he ever gave, m 1868, in St Petersburg, and had also conducted the work complete in the Russian cap-

Under Gergiev's (batonless) direc-tion, Roméo et Juliette took on a fresh pretations sharing a sense of urgent struggle. Gergiev's Mozart was and hlazing intensity. He galvanised thoughtful, unflashy, full of hristling the RPO players into giving their tension; the "fibre" of the inner texhest, allowing Berlioz's evocative, tures was more exposed than often, exhilarating score to work its many but not at the expense of Mozart's spells. The perfumed Love Scene and lickering Queen Mab Scherzo were obvious highlights of Saturday's permelodic elegance.

Mahler's Sixth - a symphony that has baffled conductors and orchestras formance, but, with excellent contri-

alike - had probably not had as much hutions from London Voices and the rehearsal time as the Berlioz, and needed more. But most of Gergiev's risks paid off: his unfailing command Brighton Festival Chorus, not all the interest was in the orchestra. Two soloists were from the Kirov: Sergey of long musical spans kept the work's sprawling self-indulgence in check, Alexashkin made a dignified Friar Laurence, and Olga Borodina was evocativa in her description of the and he welded together convincingly the contrasting ideas of its life-and-death tussle. Though at times lovesick Romeo. The American Donit sounded like Mahler with an ald Kaasch put in a hrief, idiomatic "accent" - Mahlerian unreality and irony were in short supply - this was nevertheless a valid, indeed impres-sive, account from a great conductor. Thursday's concert paired Mozart and Mahler symphonies, No. 40 in G minor and No. 6 in A minor respec-

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■ AMSTERDAM

Het Concertgebouw Tel: (020) 671

 Royal Concertgebouw Orchestra: with the Netherlands Radio Choir. Mariss Jansons conducts Schoenberg and Shostakovich; 8.15pm; Julin 9.

Gemeentsarchief Amsterdam Tel: (020) 572 0202 - Mahler in Amsterdam: exhibition: on the life and works of Mahler with an assortment of manuscripts,

letters, scores and films; to Jun 11 OPERA/BALLET Het Muziektheeter Tel: (020) 551

 Die Meistersinger von Nürmberg: by Wagner. Hartmut Haenchen conducts the Netherlands. Philharmonic Orchestra and soloists Jan Hendrik Rootening and Slegfried Vogel; 5.30pm; Jun 7, 10, 13 Royal Theatre Carne Tel: (020) 320 2500

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Friedemann Layer conducts the Netherlands Radio Philharmonic and soloists Jeanne Piland and Marie Angel: 8,15pm; Jun 6, 8

BERLIN

CONCERTS Konzerthaus Tel: (020) 309 21 02/

 Moscow Chamber Orchestra: with violincellist Boris Pergamenschikow. Constantina Orbelian conducts Mozart and Tchaikovsky; 8pm; Jun 7 Orchestra of the Deutsche Oper Berlin: with planist Bruno Leonardo Gelber. Jiri Belohlavek conducts Shostakovich's "Symphony No.1"

and Brahms' "Concert for Plano and

COLOGNE

CONCERTS Kölner Philhermonie Tel: (0221)

Orchestra No.2"; 8pm; Jun 8

 New York Philharmonic: Kurt Masur conducts Beethoven's Symphony No.7" and Shostakovich's "Symphonie No.5"; Spm; Jun 10

Radio Symphony Orchestra Cologne: with planist Mark Zeitser conducts Mussorgsky, Rachmaninov and Shostakovich; 8.15pm; Jun 7, 8

■ FRANKFURT

GALLERIES Stadel Tel: (069) 60 50 98 1 15 Gerhard Richter - Ilya Kabakov: photographs; to Aug 27 OPERA/BALLET

Oper Frankfurt Tel: (069) 23 60 61 Lady Macbeth of Mtsensic by Shostakovich. Conducted by Guido

Johannes Rumstadt and produced by Werner Schroeter. Sololata include Valeri Alexejev, Ryszard Karczykowski and Christine Ciesinski; 7.30pm; Jun 11

■ GENEVA

OPERA/BALLET Grand Theatre de Geneve Tel:

(022) 311 2211 Orphee: by Gluck, Franch adaptation by Pierre Louis Moline. Conducted by Jeffrey Tate, produced by Andreas Hornoki. Soloists include Anna Sofie Von Otter, Barbara Bonney and Elizabeth Futral; 8pm; Jun 12

LONDON

Barbican Tel: (0171) 638 8891 London Symphony Orchestra: with violinist Gil Shaham. Andre Previn conducts Vaughan Williams. Prokofiev and Strauss: 7.30pm; Jun

Royal Festival Hall Tel: (0171) 928 8800

 Itzhak Periman: violinist with tha Philharmonia Orchestra. Lawrence Foster conducts Beethoven; 7.30pm;

 Itzhak Perlman: with the Philharmonia Orchestra. Yoel Levi conducts Brahms' "Academic Festival Overture" and "Violin Concerto" plus Mozert's "Violin Concerto No.3"; 7.30pm; Jun 13 Murray Perahia: planist plays Scarlatti, Handel, Besthoven, Schumann and Chopin; 7.30pm; Jun

 Philharmonia Orchestra: with violinist Maxim Vengerov. John Eliot

Gardiner conducts Elgar, Bruch and Mendelssohn; 7.30pm; Jun 8 National Portrait Tal: (0171) 306 0055

Richard Avedon: larga scale

photographic portraits and fashion photographs; to Jun 11 OPERA/BALLET Royal Opera House Tel: (0171) 304

appearance for the tenor solo.

tively, two works far apart stylisti-cally but in Gergiev's searching inter-

 Billy Budd: by Britten. A new production conducted by Robert Spano and directed by Francesca Zambello. Soloists include Graham Clark, Francis Egerton, John Duykers and Rodney Gilfry/Peter Coleman-Wright, 7.30pm; Jun 9, 13

 La Bohéme: by Puccini. Conducted by Jan Latham-Koenig and directed by John Copley. Soloists include Cynthia Haymon, Nancy Gustafson and Roberta Algana/Tito Beltran; 7.30pm; Jun 8, 10 (7pm)

■ NEW YORK THEATRE

Belasco Tel: (212) 239 6200 Hamlet by Shakespeare, Starring Raiph Flennes in a limited run; 8pm; to Jul 22 (not Mon)

Ethel Barymore Tel: (212) 239 6200 Indiscretions: based on Jean Cocteau's "Les Parents Terribles" in a new translation by Jeremy Sams and starring Kathleen Turner, Elleen Atkins and Roger Rees; 8pm; (not

PARIS

Châtelet Tel: (1) 40 28 28 40 New York Philharmonic: Kurt

Masur conducts Strauss' "Métamorphosis" and Beethoven's "Symphony No.3"; 8pm; Jun 7
New York Philharmonic: Kurt Masur conducts Shostakovich and Beethoven; 8pm; Jun 9 Champs Elysées Tel: (1) 49 52 50

 National Orchestra of France: with soprano Monica Pick-Hieronimi, mezzo-soprano Nadja Michael, tenor Thomas Dewald and bass Michael Volle. Charles Dutoit conducts Beethoven's "Symphony No.1" and Symphony No.9"; 8pm; Jun 14 OPERA/BALLET

Champs Elysées Tel: (1) 49 52 50 Ezio: by Handel, Conducted by Robert King, directed by Stephen Medcalf and with the King's Consort. Soloists include James Bowman, Susan Gritton and Dominique Visse; 7.30pm; Jun 6, 7, Opéra National de Paris, Bastille

Tel: (1) 47 42 57 50 · Les Capulet at les Montalgu: by Bellini. Conducted by Bruno Campanella and produced by Robert Carsen. Soloists include Jeffrey Wells, Cecilia Gasdia and Jennifer Lamore; 7.30pm; Jun 9, 12

VIENNA CONCERTS

Gesellschaft der Musiktreunde Tel: (1) 505 1363

 Les Arts Florissants: William Christia conducts soprano Susan Bullock, mezzo-soprano Susan Bickley and tenor Marc Padmore to play Beethoven; 7.30pm; Jun 14 Wiener Kammeroper Tel: (1) 512 01

 Viennese Philharmonic Orchestra: with soprano Deborah Voigt and baritona Bryn Terfel. Giuseppe Sinopoli conducts Schoenberg and Zemlinsky; 7.30pm; Jun 9 Wiener Konzerthaus Tel: (1) 712

 South Western Radio Orchestra: with soprano Julie Moffat. Ingo Metzmacher conducts Webern and Mahler, 7.30pm; Jun 12

 Symphonic Ensemble: Franz Welser-Möst conducts Liszt's "Les Préludes" and Shostakovich'a "Symphony No.7"; 7.30pm; Jun 7 Viennese Symphony Orchestra: with soprano Christiana Oeize. Michael Gielen conducts Mahler and Webern; 7.30pm; Jun 8

■ WASHINGTON

Folger Theater Tel: (202) 544 7077 The Merchant of Venice: by Shakespeare. Commemorating the 400th anniversary of the play, this production is directed by Joe Banno; to Jun 25 Kennedy Center Tel: (202) 467

 Angels in America: Part One, Tha Millenium Approaches. Tony Kushner's Pullitzer prize and Tony award-winning play about sex, politics and religion; 7.30pm; to Jun

 Angels in America: Perestroika. Part Two of the Tony Kushner award-winning play about politics, sex and religion. Stars Jonathan Hadary; 7.30pm; from Jun 9 to Jul 9

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ing for 25 years, with a declining bedrock of public support and a political arm putting out feelers for negotiations: the description applies equally to the IRA and the Basque sepa-

ratist organisation Eta.
But there the comparison ends. The IRA's cease-fire last August has led to meetings between Sinn Fein, its political wing, and UK ministers, boosting hopes of an end to the violence in Northern Ireland. No truce is yet in sight in the Spanish conflict, with no political consensus on whether, when or with whom to negoti-

The Ulster peace process has made a deep impact in the Basque country, "It does not seem acceptable that we should be the only ones in the heart of Europe unable to solve our problem," says Mr José Antonio Ardanza, the lehendakarı or president of the Basque regional government.

The region already enjoys considerable autonomy from Madrid, including tha right to collect its own taxes. Its gov-ernment is a coalition including Mr Ardanza's mainstream Basque Nationalist party (PNV) and the Socialist party which forms Spain's national government. But Eta continues its underground campaign for independence for the Basques, with the backing of Herri Batasuna (People's Unity), the radical nationalist coalition linked

A new drive for conciliation has come from Elkarri (Together), an organisation formed two years ago, origi-nally close to Herri Batasuna. Mr Jonan Fernández, Elkarri's head, believes "a cycle of confrontation is petering out" and that Northern Ireland is show-

In March, Elkarri staged a peace conference involving Herri Batasuna and four other parties, including the PNV. mainstream Basque Nationalist party (PNV) to which Mr Ardanza belongs. The conference was undermined by the murder in January of Gregorio Ordónez, who was standing for mayor of San Sebastian for the Popular party, the main Spanish opposition. As a result, the Socialists pulled out of the conference (the Popular party had already declined to attend).

In April, Eta set out conditions for "a ceasefire to make way for the democratic process". These included an amnesty and recognition of "the right to self-determination and the territorial integrity of the Basque homeland" - mean-

Basque truce proves elusive

Eta is putting out feelers but prospects for **Ulster-type** peace talks are slim, says David White



An Eta car homb wrecked José María Aznar's car in Madrid

icy and negotiate, or opt for

repressive measures which

would bolster Basque public

A series of arrests in Spain

and France since last autumn

is reckoned to have reduced

the number of active terrorists

in the organisation to between

50 and 60 members. Some 600

are in jail. The organisation,

Mr Jáuregui says, cannot

repeat its campaigns of the

mid-1980s, when it was killing

between 40 and 50 people annu-

ally. But he says it still has the

resources to carry out between 10 and 15 attacks a year,

backed up by the street vio-

Basque vote has fallen from its

peak of 22 per cent in 1986. in

the recent municipal elections,

it scored just under 15 per cent.

The latest terrorist incidents

have highlighted divisions in

lence of its youth groups. Herri Batasuna's share of the

sympathies for Eta.

ing union with the larger lation, says Mr Jáuregui, is that a Popular party govern-ment will either change its polneighbouring region of

The proposals were issued a week after Eta had tried to assassinate Mr José María Aznar, leader of the Popular party, with a Madrid car bomb. Mr Ramon Jáuregui, the Socialists' leader in the Basque country and a member of the region's coalition government, with responsibility for justice, economy and labour, believes that negotiations are impossible unless Eta ends the vio-

"What I observe now is a more hardline, more fanatical Eta, even believing It is stronger than ever," Mr Jauregui says. "It seems to be going back 10 years. The Eta hard core is convinced that violence will bring results, and push aside all those who think dif-

He says the recent attacks show Eta is focusing Its attention on a likely Popular party victory in the general election next year or in 1997. The calcucians.
The next stage must be secret talks, saye Mr Fernandez of Elkarri. However, it is not clear who can negotiate on behalf of Eta - the organisation's leadership, hased in

selves from attacks on politi-

France, has been run to ground by the Paris authorities. Herri Batasuna says it cannot make pledges on Eta's behalf. "It is Eta that decides," officials say.

The one unquestioned Eta leader, Domingo Iturbe Aba-solo, known as Txomin, died in 1987 in an accident in Algeria. No figure has emerged of equivalent authority to Mr Gerry Adams, Sinn Féin's president, or Mr Martin McGninness, its chief negotiator.

Senior Spanish government officials held discussions with Eta in Algeria in 1989, after a series of discreet contacts. Government and Socialist party officials continued "temperature-taking" contacts with Herri Batasuna up to early last year, but not since.

n seeking a solution, the Spanish government has been hamstrung hy the Socialists' declining popularity. Any appearance of softness towards Eta is seen as a vote-loser. The Popular party has toughened its stance towards Basque separatism and rejects claims for self-determination - which would mean a referendum on inde-

Mr Ardanza accuses the Popular party of breaking a longstanding pact between the main parties not to use the terrorist problem as a party politi-cal weapon. But he is also increasingly frustrated with the Socialists with whom he has governed the Basque country in the coalition for eight years. He says Madrid has been delaying the hand-over of powers to the Basque government in areas such as social security and infrastructure.

The Socialists argue that the region has come a long way, including the promotion of the Basque language and establishing a Basque police force, end say there is little left to negotiate. But a recent regional survey published by Elkarri showed about 24 per cent supporting independence, with a further 36 per cent favouring more home rule.

Says Mr Ardanza: "One thing is having the right recognised Another thing is how it should be exercised or when ... As long as there is non-recognition of a right there will con-tinue to be a political prob-

No case for a yellow card



been aimed at institutional investors over

board and against the wishes of small shareholders present at last week's annual general meeting. It is important in such circumstances both to spell out the reasoning behind Hermes's policy and to show that the actions of the small shareholder and the institutional shareholder are not so

The first point is that directors are appointed by shareholders to act as their representatives, not their delegates, For shareholders to vote on individual policy matters is a very slippery slope.

Individual pay packages are not suitable matters for shareholders to vote on, provided there is a properly constituted remuneration committee made up of independent nonexecutives. If shareholders disapprove of a remuneration package, they are registering e vote of no-confidence in the board. There is nothing to stop angry individual shareholders rascals out", even if the com-

from deciding to "throw the pany suffers as a result. But institutional investors have a fiduciary responsibility to their clients: if removing the board would damage the company, then we should not act to bring that about. We have expressed concern

to British Gas about its pay policy. Although many of the changes made to the compa-ny's remuneration package were welcome, it showed little imagination in anticipating how the increase in the basic pay of Mr Cedric Brown, the chief executive, would be received. The resulting furore has damaged the company. This does not mean, however, that Mr Richard Giordano, chairman, and Mr Brown are

Snbstantial the wrong people to guide the anger and frus-tration has very difficult period. They know that credibility has to he rebuilt. There is no point in shareholders holding up a yellow card, or even a red one, to emphasise this.

The contract we make with a board of directors is that they will receive our support unless and until we have indicated to them that they have lost our confidence. This is an all-or-nothing approach, hut there is clearly a spectrum ween total confidence and the time at which we indicate that we will seek alternative

Often, when we have reservations, we succeed in forcing a company to change its ways before we are obliged to vote

board in a public meeting. But we are not frightened of taking a disagreement to the AGM.

There are at present at least two companies which we have told can no longer rely on our support. It is important for boards to know that this is our position, not least because it reduces the risk they will misinterpret our actions as shorttermism. We have not accepted a hostile bid against the recommendation of a company's board in the last three years. However, not only would we be likely to accept a bid for a company in whose board we no longer had confidence, but we would actively seek a change of management, either through acquisition or a management

buy-in. Our clients own 1.7 per cent of the value of the UK equity market, with a portion of the funds being indexed. This means, in effect, that we have foregone the option of selling our stake in a company which has lost our confidence. This in turn places a greater responsibility on us to seek the best management for all of quoted British industry: we are very unlikely to have no holding in any of the All-Share Index stocks at any time. This broadly hased portfolio imposes constraints on our ability to attend all AGMs. We were, however, represented at the British Gas meeting and we lodge proxies on all our ch-

ents' shares on all occasions. The interests of the small shareholder and the institution often become aligned at AGMs. In the campaign we launched in 1993 to reduce the term of rolling executive contracts, the intervention of small ahareholders prohing boards was important to its success. Company chairmen do not relish

under attack

Small share-

against the Small shareholders particularly should not believe when they are trying the result of British Gas AGM was a defeat for holders intent pay moderation on moderating

the escalation of executive pay should not believe that the result of the British Gas AGM was a defeat. Every remuneration committee in the country will as a result be asking itself whether what it is discussing will end up on the front page of the newspapers, and, if it does, whether it can defend its

My job is to maximise the long-term returns of 750,000 pension fund members. If I or my colleagues see boards acting in their own interests end not in the interests of their shareholders, then we must act. The rolling contract camaign showed we are not frightened to challenge the status quo, particularly on policies common to all companies

We could not develop either a consistent approach to governance or a sensible policy if we were to carry out a referendum of all our client schemes' members on every vote.

The trustees of the actions are the guardians of the seven of the pension funds. We made agreement with these trustes on the principles underlying our approach to governance matters. They then delegate to us the responsibility of acting on their behalf in accordance with our judgment. What we BM's COS on their beman in accordance with our judgment. What we are paid ourselves must not affect that judgment our out-duty is to act in the interests of our client schemes.

The pensions bill at present going through parliament will give all members of scheme where pensions are linked to a member's final salary the right to appoint up to one-third we the trustees.

would encourage all trustees appointed as a result to ensure that government policies are developed by their investment man agers - and that then managers always cast their votes. The biggest present weakness of the UK's corporate govarnance system is that fewer than 50 per cent of shares are voted at almost all

Organisations such as Pirc tha corporate governance conaultancy, are important contributors to the present debate. Although I disagreed with their approach to the British Gas AGM, we are at one in many of our aims. Indeed, have spoken at their annua conference the last two years. It is quite right that concerns

about any element of the management of a company should be open to public scrutiny. But the removal of boards is a sontion only when all else has failed. If all individual decislons made by boards were subject to formal approval it would make company management impossible.

> Alastair Ross Goobey

The author is chief executive of Hermes Pensions Manage ment, formerly PosTel,

Number One Southwark Bridge, London SE1 9HL

We are keen to eccourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main interna

the organisation, with some members dissociating them-Partnership Walk '94

On September 18th, over 10,000 people joined together throughout the UK and several cities in Europe for Partnership Walk '94 in an impressive demonstration of support for people in the Third World. The event, organised almost entirely by volunteers on behalf of the Aga Khan Foundation (UK), raised funds for sustainable programmes such as: reforestation, irrigation, water conservation and biogas projects, all of which involve close community participation.

The Foundation ensures that 100% of funds raised from sponsorship go to the projects - none are used

for administration.

AKF (UK) would like to thank all the corporate donors, including those who wished to remain anonymous, and the entertainers for their contribution to the resounding success of Partnership Walk '94.

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Bank of Ireland

Partnership Walk 1995 will be held on Sunday 23 July in Battersea Park, and six other centres across the UK. The Aga Khan Foundation looks forward to the continued support of their corporate donors.

The Aga Khan Foundation is an international development agency that supports long-term projects primarily in Africa and Asia in health, education and rural development. Beneficiaries are selected without regard to race, religion, gender or political persuasion.



AGA KHAN FOUNDATION (UNITED KINCDOM) 3 Cromwell Gardens, London SW7 2HB Tel: 0171-225 2001 Registered Charity No: 266518

Disturbing attitude to cleaning up

From Mr A.D. Nunn. Sir, Robert Corzine's article "After the oil rush" (May 27/28) gives figures of £3.5bn-£4bn as costs for the decommissioning of the oil rigs over the next 20 years. Several questions came to mind when reading this. Can it be assumed that the oil companies made no provision for this eventuality, and can it be assumed that they also feel able to chuck their junk where they like as long as no one can see it? If this is the case I would be in no hurry to invest in an industry with so little foresight not to have anticipated this situation. Nor would in one of such presumably poor financial state that it is unable, even with the taxpayer paying 60 per cent of the cost (a fair figure, considering we all benefited from the whole adventure) to dispose of its rubbish in a way that a responsible company, in a business with such a high potential to affect the environment would

be expected to do. May I assume that when my car is old and past it the authorities will allow me to dispose of it by dumping it in some remote part of Scotland or Dartmoor because there are only a few rabbits there (or even Antarctica, not much there!). Considering that an old car must have fewer "problem environmental components" than the oil rigs that Professor Cliff Johnston, of Heriot-Watt University, was referring to, this should be acceptable. It is the attitude that it is acceptable to throw rubbish away as long as nobody is around that leads to old bedsteads being dumped down slopes and on to "waste" land or toxic waste being dumped because there are no people living there.

The attitude that cost justi-

fies such action, indeed almost any action within the laws, and presumably any action if and presumably any action if the laws were not there, is a disturbing one. It would be better to provide at the outset for proper cleaning up instead of only if the cost factors subsequently allow. A.D. Nunn,

New Cottage, Twyford, Haywards Heath, East Sussex RH17 TDH, UK

From Mr Michael S. Barber.

Huw Richards ("Devaluation

of an old currency", June 1) is

right. Rugby achievements are devalued by the emphasis on

The remedy is simple. The

winner of a game of rugby

should be the team that scores

Surprising example of insensitivity to cultural dignity

From Mr Paul Grisanti. Sir, Jurek Martin has a better grasp of my country than any journalist on either side of the Atlantic. Boh Dole is not the best man for the job of president. So why is my first etter to your newspaper criticising the former and defending the latter? Because I would hate to think that Mr Martin has either contemporary British ignorance of America, or old British ignorance of Catholic dignity, I wasted \$8 to see the movie Priest, which Mr Martin referred to in his article

Right-on leader of the third

wave - Ralph Reed" (May 20). I

spread the word, since the best An FT writer less inclined to

cultural sensitivity than Jurek Martin made fun of Hispanic senior citizens in an article on last year's New York mayoral election. The students at the high school where I teach economics, most of whom are immigrants from the Dominican Republic, have learned from me that Jurek has mas respeto. He doesn't know Americans as well as I thought if he can't see the anger this movie has created. Paul Grisanti,

will tell others not to see it, and hopefully they too will New York, NY 10019, US

meaning From Dr John Wall.

No ancient

Sir. With reference to the letters published under the headline "Cruising to some sort of a record" (May 22) in the longest German word, at school we learned the "longes word in ancient Greek":

όρθοφοι Το συκοφανίο δικοταλαιπωρος

It was then about as useful as the full title of Danube Steamship Company captains, hut I have found it far more relevant in adult life. It means a "thieving, scheming, comiving lawyer' John Wall,

chief executive, The Medical Defence Union. 3 Devonshire Place, London WIN 2EA, UK

E 574 ---

Implications of SE pricing review

From Mr Fields Wicker-Miurin. Sir, I feel it is important to correct a number of misconceptions which the article "Stock Exchange to review trading costs" (May 2) may have conveved to our market participants. The exchange is. indeed, reviewing its pricing structures as part of normal business operations to reflect the changes in the services offered to our constituents. We are in the process of phasing in our Sequence programme which will replace all of the exchange's trading and information systems with a single, unified, flexible platform by August of next year. Sequence will provide both enhanced versions of existing services and entirely new services. Naturally we will be assessing cost structures and prices as these services evolve. Our overall aim is to provide the most efficient, cost-effective and competitive services to member firms and other market participants to enable them to lower their costs as the market moves into the 21st century.

It is incorrect to imply that the exchange is planning to increase the prices for any par-ticular services. Nor would it be accurate to attribute unspe cified price "rises" to the loss of revenues from settlement services when Crest takes over share settlement. Our review is in the early stages, but our overall objective is to ensure that our prices fairly reflect the value of the services we

At the same time, the exchange is keeping a very tight control on its own costs which, in fact, are continuing to decre Fields Wicker-Miurin,

director of strategy and finance, The London Stock-Exchange, London EC2N 1HP, UK

Not uncommon then

From Mr Stan du Plessis.
Sir, The article "A history hidden by the apartheid years"

(June 5) hy Michael Holman was yet another misguided attempt at labelling South African rugby supporters as racist and South African rugby as the last stronghold of separatist politics. What relevance could a

quote from an 1884 Port Elizabeth newspaper possibly have on modern South Africa? Michael Holman should not forget that Port Elizabeth was a part

more tries. If tries scored are

equal, the winner is the team with more conversions. If con-

versions are equal, or zero

more dropped goals shall

of the British Empire in 1884. The racist quote which Mr Holman's careful research revealed was prohably not uncommon for an English paper anywhere in the British Empire at the time.

The Financial Times would do well to refrain from propa-gandist articles under the ban-ner of "World cup" coverage. I recommend that you stick to the rugby Stan du Plessis

27 Chequers Road, Basingstoke RG21 1PT, UK

Prize should go to those who try hardest alties, fewer place kicks, thus more action and better epectator rugby. Michael S. Barber,

Michael Barber and Associates decide. If dropped goals are equal or zero, more penalty goals shall decide. The result 18 Croydon Road. Caterhan of this would be more run pen-Surrey CR3 6QB, UK

Crime and punishment

From Mr Don Peters.
Sir. Your leader "Private prisons in perspective" (Jute 2) identified three "yardsticks" forecasting improvement for everyone concerned - elcep the prisoners and their victims The consequence of crime is (often) punishment; and the consequence of punishment s (often) more crime: that's "recidivism". Unless some radical reform is introduced into the "Victorian values" of our

notorious system, continuing

increase in crime seems increase The UK's current home ser-retary, Michael Howard, suithfully follows tradition in the medicine makes the disease worse instead of hetter increase the dose" Roll on the general election.

Don Peters, 77 Belgrave Road London SW1V 2BG, UK Marie St. Tr. Tr. STEAT 1 125 25 17. <u>1</u>7. 15. $x_{i,k} \not = x_i x_i x_j$

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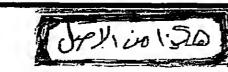
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cial pre-imminence they lost through war. But Bearut retains several advantages.

It retains features that make it a natural capital market an open

and banking secrecy. In Beirut's absence, alternative centres, such

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Tuesday June 6 1995

IBM's costly software bid

The memoirs of Tom Watson Jr, the man who took IBM into the computer era contain only one reference to software, an agonised tale about how it always costs more and takes longer than you think

\$3.3bn hostile bid by IBM for Lotus, the company that made the 1-2-3 spreadsheet ubiquitons, shows both how quaintly old-fash-ioned that paucity of comment seems - and how prescient. These days, the hardware on which IBM hullt its fortune is a perilously fragile foundation for the com-puter company of the future: software is now the industry'a core product, one for which IBM is willing to pay way above the previous market price. Yet both IBM and Lotus have, in their different ways, struggled to manage the process of writing software.

The attraction of Lotus to IBM goes beyond this shared unhappi-ness. It offers another memory of the Watson days, a ghostly echo of the "account control" of the past. By offering customers something they hadly needed - industry standard hardware - IBM managed to lock them in for a generation, until the personal computer came along. Now, account control takes place at the software level, and Lotus offers one of the possible ways to achieve it, through its s "groupware".

This program allows workers in hig companies to stay in touch around the globe, exchanging messages and managing shared databases on projects and customers. It can be easily manipulated by

end-users, and is good at keeping the version of the data held in, say, the Jakarta office in sync with that held in Düsseldorf. But its principal virtue lies not so much in its technical excellence but in its ubiquity: it was the first product in this category and remains by far the dominant one.

Ubiquity is what IBM badly needs to compete in the market for networked computer software, where it lags behind three rivals. Microsoft owns the main nser interface; Novell owns the main network operating system; Oracle owns the leading distributed database. There are no prizes for coming fourth.

This is a recipe for rapid industry concentration, now achieving a self-reinforcing speed and ferocity. US anti-trust anthorities have already intervened, in actions aimed at Microsoft. Should the sudden appearance in this arena of IBM, the trust-busters' old nemesis, cause them renewed concern?

On balance, no. IBM is notori-ously bad at handling both acqui-sitions and desktop software; it has no unfair advantage in developing Notes. If IBM is able to use it salesforce to sell Notes more effectively, that provides a stronger counterweight to the other market rivals. If it mishandles Lotus as badly as it mishandled Rolm, the telecommunications company acquired in the 1980s, competitors will pounce on any unhappy customers. The trend towards concentration itself will bear watching; but on this bid, the

verdict can safely be left to the shareholders of both companies.

count. Nevertheless, the shadow of Airbus has bung over the entire 777 project, on which analysts estimate Boeing spent \$5bn. Mr Gordon McKinzie, the 777 programme man-ager at United, describes bow his company openly played Boeing and Airbus off against each other in its bid to get a better deal and a better aircraft.

Mr Frank Shrontz, Boeing's chair-

man, says this will be the last pas-

senger aircraft model launched by

any manufacturer this century. On it rests Boeing's hopes of remaining

the world's leading aircraft maker

and of resisting the challenge of

Airbus Industrie, its increasingly

confident European competitor. Boeing's executives say huilding

the twin-engine aircraft, which car-

ries up to 400 passengers, changed

the way the company operated,

breaking down barriers between its

specialists, introducing new tech-

nology and making closer contact

Mr Philip Condit, who headed the 777 project until hecoming Boeing's president in 1992, says:

We made a whole bunch of evo-

lutionary changes that had a revo-

lutionary result. It's a turning

The new aircraft, which sells for

\$120m (£75m) before discounts, was

manufactured against e background

of some of the worst market condi-

tions the industry has seen. When Boeing decided to build the aircraft

in 1990 it employed 161,000 people

and recorded annual net earnings of

\$1.39bn. By the end of 1994, staff

numbers were down to 117,000 and

A few days after Boeing workers

cheered the 777's take-off, they

heard that Boeing job losses this

year would be 12,000, rather than the 7,000 announced earlier in the

year - although about half of those

leaving will be taking voluntary

Last year provided Boeing with a

shock when Airbus recorded more

orders than it did - the first time Boeing had been deprived of the top

slot since the advent of the jet age.

Boeing executives play down the

significance of Airbus's achieve-

ments, saying it is deliveries which

net earnings were \$856m.

Towards the end of the 1980s. United, the world's largest airline, realised that it would need a replacement for its McDonnell Douglas DC-10 fleet, which would be

2.4

average Tory MP.

This is your n a grey and blustery day in Seattle last month, a new Boeing 777 took off from the local airfield to the customer speaking cheers of the company's employees.
Tomorrow, the aircraft, the US manufacturer's first new model in 13 years, makes its maiden commercial flight from London to Washington DC in the colours of United Air-

> Boeing made close contact with airlines in the development of its 777, writes Michael Skapinker

> > Cleared for take-off:

25 years old in 1996. In October 1990, the airline invited Boeing and Air-bus, as well as McDonnell Douglas, to Chicago to present their arguments for re-equipping the United

United also invited the world's three leading aircraft engine makers, General Electric and Pratt & Whitney of the US and Rolls-Royce of the UK, to say why they should be allowed to power whatever air-

United called the six companies in one at a time to put their argu-ments over 70 hours. United had to choose between Boeing's proposed 777, the Airbus A330 and A340 and

the McDonnell Douglas MD-11. United was impressed by Airbus' 'fly-by-wire' technology, which allows the wing and tail surfaces to be controlled electrically rather than mechanically.
United decided, however, that the
777, powered by Pratt & Whitney

engines, seemed the better aircraft. But the airline told Boeing that the aircraft would have to be designed and made differently from the man-ufacturer's previous models. First, United said the 777 - bigger

than tha 767 but smaller than the 747 - would have to work properly from the day it was delivered. United did not want a repeat of its experience with the Boeing 747-400 when it, and other airlines, had to sort out early faults.

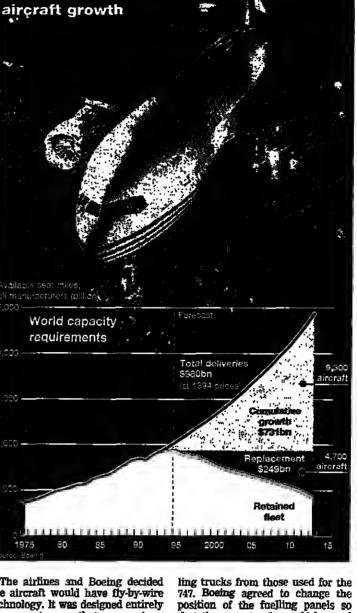
Mr McKinzie says: "What we had in mind was orchestrating a departure from our past practice of ordering an airplane, waiting five years, then giving Bosing a final payment and flying away boping everything aboard was as we expected."

Second, United would help design the 777 from the beginning. Mr into Boeing. We virtually infiltrated the Boeing process."

Boeing decided to go further,

inviting eight airlines to help it design the aircraft. They were United, American Airlines, Delta Air Lines, British Airways, Cathay Pacific, Qantas, Japan Airlines and All Nippon Airways.

Three Japanese companies, Mitsubishi Heavy Industries, Kawasaki Heavy Industries and Fuji Heavy Industries, made 20 per cent of the



The airlines and Boeing decided the aircraft would have fly-by-wire technology. It was designed entirely on computer, so that no mock-up and to be built.

The involvement of the airlines saved Boeing from several errors. United told Boeing that the level of the 777's fuelling panels meant the aircraft would need different fuel-

not want silver plated wiring in the fuel tanks because past experience had shown that this corroded. Nickel plated wiring was used Homeowners at top of Tory bribe list

that the same trucks could be used

for both models. United said it did

Before the 777 was completed, it had attracted 144 firm orders and 99 options. United was the largest customer with 34 orders and 34 options. Boeing claims that since work on the 777 started in 1990, the aircraft has taken a clear sales lead over the A330 and A340 and the MD-11.

Airbus concedes that the 777 has outsold the A330 and A340 since 1990, although the two companies disagree on how big a lead Boeing has. Airbus scoffs, however, at Boeing's claims that it has broken new ground in the design of the 777. Airbus says its A320 aircraft, which entered service seven years ego, was 90 per cent computer-designed. The A340, which went into service in 1993, was completely computer-

Airbus also asks wby Boeing should regard listening to its customers as such a feat. This is a question which manufacturers in many industries might repeat. Mr McKinzie says: "At no time did Boeing turn us away or ignore us. Why should the leading customer of a \$5bn project even raise the possi-bility of being ignored?

r Gerald Greenwald, United's tradition of the aircraft industry is largely to blame. He says: "Historically, airplanes have been designed by engineers for engineers and the engineers have been left to deter-mine what's good for everyone

Mr Condit says that while other ers, were being forced to listen to their customers, many in the aircraft industry thought of themselves as a special case, "There's a temptation to say: 'Airplanes are different. We have a product that eaves the ground."

Mr Shrontz says be is confident Boeing can maintain a worldwide market share of 60 per cent to 65 per cent in spite of the progress Airbus has made.

The challenge now will be to begin earning a return on the large investment in the 777. The orders accumulated eince 1990 dried up last year, when the aircraft did not attract any new buyers. Of the eight airlines which helped design the 777, three - American, Delta and Qantas - have not ordered any.

However, Boeing says airlines will buy more than 15,000 aircraft over the next 20 years. Mr Nicholas Heymann, an analyst at NatWest Securities in New York, believes the 777 is poised to gain several orders. He says Boeing's ability to produce a new aircraft with fewer people has made him optimistic about its future. "Boeing's ability to remain competitive is not going to be chal-lenged," he says.

Water woes

To take an unfashionable view: it is possible to feel a scrap of pity for the privatised water companies. Instead of being liberated by privatisation to pursue a clear commercial path, they are wading through a swamp in which every action is politically charged. They are damned if they make much proff, and damned if they do not.
Yesterday Anglian Water amounced that it was giving back a slice of its latest profits to customers, citing one-off efficiency. gains. The move, which follows North West Water's decision-to make a similar rebate, recognises. that many people object to leaps

in profits and dividends while water bills rise above inflation. Mr Ian Byatt, the water regulator, was right to say yesterday that, from the regulator's point of view, rebates are acceptable, but not obligatory. In setting caps on annual prices, the basis of existing regulation, regulators are simply prescribing the maximum rises

However, there are two qualifications. Before making rebates, companies must sure that they can meet investment obligations, a point Mr Byatt rightly stressed. The programme of intrastructure improvements is even heavier in water than in other utilities. Secend, companies should be under no illusions that generosity to customers will soften the terms of the next pricing review. If anything, it is likely to make that ruling tougher companies disclosure of profits is evidence which may be used against them.

Given the small chance that generosity will lighten the regulatory load, it is hard to argue that rebates are in shareholders' interests. If companies are regarded as purely profit-maximising entities, it is not clear that the policy of making rebates is justifiable.

Some may argue that near monopolists should not act as profit maximisers, but should share profits between all stakeholders - shareholders, customers and employees. That stance strikes a chord with many, but it has pitfalls. If shareholders take a dim view of the principle, as they would probably do, they would sell their shares. The consequent rise in the cost of capital could meen that customers eventually pay more for utilities. Splicing the stakeholder theory on to the present rules might seem simply a kindly amendment. But it would reflect a profound scepticism that the present rules can ever deliver a fair balance between customer: and sharebolders, and could undermine those rules entirely.

So far the rules are doing good job of tightening the utilities prices, particularly given the flawe of privatisation. Last sum mer's reviews went some way to correct those faults; Mr Byatt points out that the profits which companies are now reporting do not yet reflect that tightening. The framework has many shortcomings, but introducing a regular practice of splitting profits between shareholders and custom ers would be a radical change that is not yet warranted.

Beirut resurgent

The word Beirut triggers images of mindless destruction. The 1975-90 civil war in Lebanon appeared to have ended Beirut'e role as the natural financial clearing house for the Middle East, and even to have terminated the idea of an independent Lebanon But things are not at all that bleak.

The civil war was to a large extent a regional conflict fought by proxy or Lebanese soil. If - a big if - there were a workable accommodation between Arab and Jew, Beirut would have a chance to reinvent fixelf as a regional

Pre-war, Beirut traded on the skills and services of its entrepreneurial people, building up a boulding centre sustained by capial Right from its neighbours and the recycling of petro dollars from the Guif to the west. A resurgent ne as described in an FT singly today will need to man-age the task the other way round, by lacement the gateway for cap-tal energy the Middle Kest, to need the development opportunity

meet his development opportunity crosses in search procedents for Beruita testing as an international procedents for Beruita testing of centre may not seam promising in Europe, for example, mather Antwerp nor Amsterdam recovered the financial measurement they lost

economy, a convertible corrency,

replicated its pre-war role, nor developed enough to meet the region's new needs.

Beirut'e revival should also be underpinned by the inflow of capi tal to finance Lebanon's recon struction. The requirement is for US\$35bn (£22bn) in reconstruction funds over the next decade, some \$6.5bn of which arrived last year mostly from private Lebanese cap ital abroad. That inflow under lines the role of the Lebanese dias pora as a source of wealth. With Lebanese bankers to be found in all international finance houses, it is also a source of skills.

Such strengths, as well as the absence of strong regional rivals, give Beirnt an excellent chance of achieving pre-eminence as a market for Arab funds from inside and outside the region; as a market for corporate and government debt; and - once Beirut's stock exchange reopens later this year -as a market for cross-border flotation of privatised companies and parallel listing of shares from other regional exchanges.

The most important opportunity of all would emerge from completion of peace talks between Israel and Syria. An accord should bring Israeli withdrawal from Lebanon's south, and a reappraisal of Lebanon's relationship with Syria. Syrian hegemony resulted from the would need help in restructuring its inefficient command economy Then Lebanon could emerge as Syria's indispensable financial window on the world.

fond of remarking that good economics and good politics are indistinguishable. I suspect that, most of the time, be means it. He must also know that such sentiments cut no ice at all with the

Take the latest clamour over the plight of the nation's homeowners. Last month, those doughty, hrave, ever-consistent souls on the Conservative backbenches were telling the chancellor he must lop three or four pence off the basic rate of income tax. Before that, they wanted him to reassert traditional Tory values by restoring generous tax breaks for married couples. Next month, no doubt, we will hear calls for a better deal for motorists. Then of course, there are the hard-pressed entrepreneurs and the white-collar workers trying to match a two-year employment contract with 10 years of school fees. The list is endless, but there must be something for once-loyal supporters of the Tory

You will by now have got the

Kenneth Clarke is drift. Most Conservative MPs £10,000; and to vote Tory, south-we believe that their remaining slim, hopes of clinging to power depend on three things: bribery, hribery and bribery. The chancellor must stuff as much as he can into the pockets of as many as he can before the election. Never mind all that highbrow rhetoric about an exportled, low-inflation recovery. The voters who must be persuaded to return to the Conservative fold want short-term gratification. It is Mr Clarke's job to deliver it. If the price is a hit more borrowing and a bit more inflation, so be it; there will be time enough to deal with any problems after the elec-

It is not hard to see why bomeowners with large mortgages have shot to the top of the list of those judged most deserving of these sential pre-election handouts. For most of the 1980s, home ownership was at the heart of the Tory dream. Prices rose steadily and then spectacularly, enriching effortlessly an electorate marching enthusiastically under Margaret Thatcher's standard. To buy a bouse or a flat was to take a stake in popular capitalism: to make an easy

Now prices in some parts of the country are between 30 per cent and 40 per cent below their 1989 peak, more than 1m homeowners are trapped in their properties by negative equity, and about the same number are struggling to meet their repayments. The market shows no sign of reviving. Even if one discounts the deliberately dismal forecasts of the building societies and

The chancellor must stuff as much as he can into the pockets of as many as he can before the election

housebnilders campaigning for Treasury hand-outs, there is little prospect of any significant pick-up before an election due by the spring of 1997. And, since housing accounts for about 50 per cent of total personal wealth, it is not surprising consumer confidence has been badly dented. What is worse, those who have suffered most live in London, the south-east and

it happens, will decide the outcome of the election. But for all the handwringing of

his backbench colleagues, Mr Clarke must know that there is nothing of consequence he could, or should, do. It was tactless, not to say rather insulting, of John Major to seek to absolve his government of all blame for the present position. But he should end now the pointless speculation ebont possible

There is no shortage of suggested wheezes to "kick-start" the market - the building societies have made sure of that. Those trapped by negative equity could be given tax relief on realised losses; mortgage interest relief could be increased for firsttime, or for all, buyers; stamp duty could be reduced or removed; and the government could delay plans to curb mortgage interest benefits for the unemployed. Of that list, only the last proposal makes any sense, and only in terms of not kicking any harder those unfortunate enough to lose their jobs. The others would have a negligible impact at an extremely high cost.

Tory MPs as well as homeowners

that the world has changed. There is nothing to prevent a modest bouse price recovery over the next iew years - prices, after all, are et their lowest relative to incomes for more than 25 years, and interest rates are similarly low. But the more fundamental economic forces et work are here to stay. The only way back to fast-rising bouse prices is through an inflationary, and unsustainable, economic boom.

In such circumstances, the chancellor should be make a virtue out of necessity. He should explain that government policy will be directed not at creating another house price explosion but at preventing it. Economic decisions in Britain have been distorted for too long by the fact that housing offered the surest route to the accumulation of wealth. In future, education, skills and enterprise will count for more than bricks and mortar. We should expect to pay for our housing, not profit from it. The electorate may not like the message but it has the merit at least of being true.

Philip Stephens

OBSERVER

The labours of Iesse Helms

■ Not much of a day for kicking off an annual conference, with the spectre of a 25 per cent budget cut hanging over your head. But the Geneva-based international Labour Organisation has heard it all before. so maybe isn't too worried

Some ILO delegates with long memories at today's meeting of the UN agency will recall the Nixon administration's cancellation of US membership, in a row over the composition of Soviet bloc delegations.

The boycott was short-lived; by 1980 the US was back, paying its regular 25 per cent whack to the ILO budget.

Now Senator Jesse Helms Republican chairman of the Senate Foreign Relations Committee, has attacked the ILO's "archaic" structure, saying it seems "ill-suited to an era in which the role of labour unions is vastly diminished.

Naturally, American labour unions disagree. Rather odder is that US business also thinks Helms is barking up a bonsai. Cutting funds to the ILO would "do serious damage to US economic interests," says Abraham Katz, president of the US Council for International

Business. But even if Helms doesn't get his way in altogether eliminating this year's \$64m US contribution, some cuts look inevitable.

Observer has a suggestion to resolve the problem. Make all UN agencies, and the UN itself, less dependent on the dollar. Washington's quarter share of the UN budget gives it a unique veto on UN programmes and a disproportionate influence on

policy. Let Japan and Germany pay a bigger share and the US e smaller one. In return, Japan and Germany would naturally want permanent seats on the UN Security Council That would of course dilute US influence; which Senator Helms might like, after all.

Sticky fingers

You've all heard of the Velvet Revolution, when communism collapsed in the former Czechoslovakia in 1989. Welcome now to the Velcro Aftermath when your hard-earned cash sticks like glue to Czech hands. It's come to Observer'e attention that in the Czech Republic foreigners are now often being charged several times more than what Czechs pay. This year as

normally unwittingly, as prices are often written out in full, rather than given in figures – find themselves subject to this perfectly legal levy. Maybe things will change from July, when the Czech Trading Inspectorate, the consumer

watchdog, gets new rules allowing

the imposition of fines for

many as 100m visitors might -

"discriminatory" pricing. The bark may of course be much worse than the bite: in which case. Slovakia is a very nice place, we're

In-flight games As e mortified South Africa

deplores the conduct of its sporting heroes in Saturday night's world rugby cup hrawi with Canada, the promotional leaflet distributed at South African Airways check-in counters takes on an ironic note. "Please guys, play by the rules," pleads the headline above a photograph of e beaming Francois Pienaar, the Springbok rugby captain. Quite right - good old SAA, spearbeading the battle to clean up South African rugby.

"Have fun!" it continues. "But don't go overboard. . . we trust that yon'll be good sports... Thanks for playing the game." Hang on a minute. Closer

inspection of the leaflet reveals that these admirable exhortations are addressed not to the players - but to SAA's passengers. They can't all be rugby players?

Overwhelmed Newt

■ Updating Bernard Shaw, we might say that those who can, do; while those who can't, fantasise. So why is Newt Gingrich, the US Speaker, writing imaginative novels? Surely be hasn't already

given up on becoming the next president?

Not that Bob Dole, Republican senate leader and a Gingrich rival for the nomination, is too upset at Gingrich's scribbling. For Dole, who has criticised Hollywood for making movies with too much sex and violence, might find Gingrich's novel a handy stick when the Republican punch-up really gets

At the weekend Dole was on a TV chat show, being pressed for comments on the following extract from Gingrich's book: "He was overwhelmed by the sight of her. the shameless pleasure she took in her own body. Suddenly the pouting sex kitten gave way to Diana the buntress. She rolled onto him, sitting athwart his chest, her knees pinning his shoulders. Tell me, or I'll make you do terrible things'." Like run for the presidency...

Shocking drivers

■ Anyone who has been ferried round Buenos Aires in a taxi might feel that the protective devices need to be given to the passenger, not the driver. But after a spate of robberies and four murders in the last seven months, Buenos Aires taxi drivers are, the Argentine newspaper Clarin says, contemplating arming themselves with either gas canisters, electric prods, or a warning system to alert police. Make sure you've got the right change...

Financial Times

100 years ago The Quebec Central We have had frequent occasion

of late to call attention to wonderful examples of recoperation in depreciated securities. American railroads have furnished many such, and another instance worth mentioning is to be found in the Quebec Central. At the outset, the Quebec Central got into bad hands locally. The English financiers, after a great deal of trouble with their Canadian associates, had to take over the line themselves, complete it and run it under their own control. In this they were much more fortunate than in their original venture. A level-headed Welshman, Mr Frank Grundy, was sent out and soon succeeded. in bringing order out of chaos.

50 years ago Big socialist defeat

Toronto: Ali groups were decidedly stronger on the Stock Exchanges following the decisive defeat of the Socialist Party in the Ontario elections. Traders credited the strength to the rejection of the Commonwealth Federation Party, which promised socialisation of banks and industries. The Conservative Party was re-elected with 66 out. of 90 seats: ...



Blackout threat follows defiance of watchdog

Berlusconi's TV channels face ban over advertising

by Robert Graham in Rome

The three television channels of Mr Silvio Berlusconi, the media magnate and politician, risk a blackout today if they persist in their defiance of Italy's media watchdog commission.

The networks are refusing to carry 13 publicity slots ordered by the commission to balance coverage in the run-up to Sunday's three referendums on the future of commercial television.

Mr Berlusconi risks losing two of his three channels if the vote goes against him. Yesterday, the former premier claimed the commission was biased, acting on the orders of the political left which had promoted the referendums.

Refusal to obey the commission could mean a fine of up to L500m (\$305,000). The commission also has the power to take the channels off the air for a period lasting from one hour up to 15 days.

If the channels are blacked out

replaced by the message: "Transmissions have been stopped for failing to respect the laws for bal-

anced coverage during elections." Mr Berlusconi, whose Fininvest empire accounts for 45 per cent of the national television audience, appeared to be deliberately courting the blackout to turn the situation to his advantage by claiming to be victimised.

A group of his supporters in Milan yesterday filed an injunc-tion with a local administrative court challenging the legality of

In the three referendums on commercial television, voters are being asked if they want to limit ownership to one channel, cut advertising during films and limit advertising to two channels.

To fight the three proposals Mr Berlusconi has used all his media muscle in a campaign consisting of a heavy concentration of advertising, combined with the the overt endorsement of Mr Bernormal programming would be lusconi, by the best-known pre-

senters and showhiz figures on

The advertisements have been reduced to warnings to viewers that they will lose their favourite soap operas. In defending advertising hreaks during films, each film is preceded by a cartoon explaining that Fininvest films are free - a dig at the RAI state television which extracts a

licence fee from viewers.

The anti-Berlusconi camp has produced an advertisement showing a famous scene of Marcello Mastroianni and Sophia Loren from A Particular Day. When they are about to kiss the film is cut and a voice is heard saying: "One doesn't cut emotions like this" and the slogan "Vote Yes those Italians who like films"

appears. Concern over Fininvest's excessive bias led to several complaints over recent weeks to the commission. After several warnings the commission decided to impose sanctions last week.

EU to push states for urgent action on single market laws

By Caroline Southey in Brussels

Mr Mario Monti, the European Commissioner responsible for the internal market, will today urge member states to take urgent action to remove barriers in public procurement and insurance in the European Union.

He will deliver his message to EU ministers at an internal market council meeting in Luxembourg armed with the latest data showing the leaders and laggards among member states in adopting laws aimed at creating a single market.

The worst performers include Germany, Greece and Finland, which bave implemented less sures listed in a 1985 single mar-ket white paper to be included in

national legislation.

Mr Monti will also stress that progress has been particularly slow in areas such as public procurement, insurance, the free movement of people and intellectual and industrial property

UN hostages

rights. The member states with the best record of adopting EU legislation are Denmark, Luxembourg, France, the Netherlands, Spain and Sweden, all of which bave higher than 95 per cent, ahead of the average rate of 92.6 per cent for 14 member states. The UK is marginally ahead of

The figures include statistics from Sweden and Finland for the

the average.

The Commission is emphasising quality as well as quantity in the application of single-market laws. Infringement proceedings are pending against a number of member states for incorrect implementation of laws covering dence and the right of residence for students.

The average level of adopting laws covering intellectual and industrial property rights is 73 per cent, while just five members have adopted the laws covering mutual recognition of professional training and education.

The area causing greatest concern is public procurement. "We are not satisfied at all with the progress being made in this sector and the economic effects are huge," an official said.

There has also been growing concern that laws governing the single market are not applied equally and effectively in all member states. Penalties for breaking the laws are harsher in some countries than others.

As part of the drive to see legislation applied uniformly. Mr Monti has served notice that he wants a commitment from member states that they will impose sanctions that are effective, proportionate and dissuasive.

posals which would for the first time provide EU-wide rules for

the legal protection of databases. The directive would provide a two-tier system of protection. Copyright would be limited to the design of the database while separate protection, lasting 15 years, would cover the content.

Continued from Page 1

slightly ahove its authorised strength

That could create a need for a new Security Council resolution, which Russia could veto. Mr Radovan Karadzic, the Bos-nian Serb leader, warned yester-

day that the expanded UN force would not be able to force its way through overland supply routes. The use of these routes would still be subject to Serb consent.

UK and US air travel deal

FT WEATHER GUIDE

Continued from Page 1

flights shortly. Under the agree-ment, the US has accepted a UK offer made last year which gives US carriers unrestricted access to any regional airport in the UK.

Both sides also agreed to increase code-sharing arrange-

ments under which an airline sells seats on a flight operated by another carrier. The agreement follows two

1030

HIGH

days of talks in Washington last week which finished with the lwo sides saying a number of minor issues still had to be resolved. Yesterday, the governments said they had reached full

The agreement follows a warning last week by Mr Neil Kinnock. European Union transport commissioner, that EU countries did not have the right to negotiate with the US individually. The UK has rejected this view

design work out of Japan By Michiyo Nakamoto in Tokyo

Ricob, the Japanese maker of imaging equipment, is shifting design work for advanced cam-eras to Taiwan in a move that highlights the impact of the strong yen on Japanese manufacturers and their increasing will-ingness to conduct research and development overseas.

Ricoh's decision follows similar though less drastic moves by other Japanese companies, which bave traditionally kept the design and development of leading-edge technologies at

Sharp, one of Japan's fastest growing electronics companies, plans to establish a multimedia research laboratory in the US in July. NEC, another large electronics group, set up a research and development facility in Bonn last summer to develop parallel-

reflect the growing pressures Japanese companies bave been facing since the yen's sbarp appreciation against other lead-

While the country's big manufacturers have had to shift production of bardware to lower cost bases overseas, they bad been loath to move either R&D or the manufacture of advanced products ootside Japan. That reloctance stemmed from a concern that a move offshore would contribute to the "hollowing out" of the country's industrial base and the loss of jobs, which would undermine social stablity.

A study by the Japan External March showed that the adverse impact of the yen's rise was forc ing more Japanese companies to operations in order to raise effi-

At the same time, Japanese

Ricoh to shift some

processor computing.

A survey published yesterday

by the Nihou Keizai Shimhun, the leading economic daily, suggested 60 per cent of Japa-nese companies responding to a questionnaire were reviewing their R&D activities.

Of those, a third said they were strengthening R&D facilities overseas.

Moves to shift R&D overseas

Trade Organisation published in reorganise their worldwide

Another factor driving R&D abroad is Japanese companies' need to respond more rapidly to market demands in their global operations. Sharp says setting up a multimedia R&D centre in the US will enable it to pass on successful developments immediately to its production and sales bases there.

companies are increasingly moving into areas where the expertise is more often than not found ontside Japan. In multimedia and advanced communications. for example, the US is ahead of Japan in many leading-edge technologies, particularly in soft-

1010

THE LEX COLUMN

Lotus eaten

In Homer's Odyssey, the lotus eaters were the ultimate escapists. They lol-led around munching lotuses, forgot their past and never returned home. IBM's \$3.3bn attempt to gobble up Lotus has a hint of escapism too. Though the computer giant's core mainframe business has been enjoying a resurgence, long-term prospects are dim. Buying Lotus may seem an excel-lent way of putting the past behind it and springing into a brighter world.

Lotus itself has had a bumpy ride. Its personal computer application programmes, notably the 1-2-3 spreadsheet, are losing out to savage compe-tition from Microsoft. But the company's Notes programme is the eading product in "groupware", one of the hottest segments of the software industry, which allows groups of employees to share information.

The appeal of Notes goes beyond its own sales prospects. If it could be established as a dominant networking standard, it could become a platform for selling other products - in much the same way that Microsoft has used

its Windows operating system. However, there must be scepticism over IBM's ability to turn Notes into a pot of gold. The computer giant does enjoy strong finances, which would be helpful given that Lotus has been struggling to fund the cost of developing Notes and maintaining its older products. IBM's extensive marketing network may also help Notes establish a dominant position, though the group has not been successful in selling other software products.

The real worry is that IBM's bureaucratic culture could crush Lotus's entrepreneurial spirit. This is doubly risky since the bld is hostile. Unhappy software programmers could easily walk. IBM's promise to take a handsoff approach to managing Lotus is clearly intended to avoid such an outcome. But giving an acquired com-pany a free rein is also risky, as Sony found with Columbia Pictures. It is easy to understand IBM's aspl-

rations. With its mainframe business enjoying an Indian summer and its personal computer business searching for direction, it would be great to develop a strong presence in networking. But business success is not built on aspiration.

in marking down IBM's share price yesterday, investors expressed their scepticism about the bid. Many would prefer the computer company to con-centrate on the hard task of cutting costs and reforming its culture. Shareholders might be let off the hook if



another bidder trumped IBM'a offer. But with a high price on the table the chances are not big.

Anglian Water

Anglian Water was under pressure to give something back to customers. That much was obvious following North West Water's recent attempt to alleviate allegations of corporate greed hy offering customer rebates. Anglian has struck a rational balance, Its £12m rebate may represent only 2 per cent of an average bill. But it compares favourably with £9m of efficiency gains achieved last year or the £10m rise in dividend payments. The timing is favourable for

Anglian, It coincides with a £17m drop in pipeline maintenance charges because of accounting changes. The problem is that Anglian's action yesterday has raised expectations of further give-aways. Its management studiously avoided outlining how future efficiency gains might benefit customers. But after launching another £20m a year cost savings programme, its customers will expect more. Such rebates are effectively made in the hope of fending off later regulatory pain. Anglian should maximise such political gains by outlining a strategy on customer benefits.

The rebates may have cut shareholders' profits, but the blow was soft-ened by hints of the water sector's first share buy-back programme. Swapping equity for debt makes great sense. Companies get tax relief on interest payments. The balance sheet would result from a 10 per cent buyback should dissuade the management

dios to INI from further costly diversification Given Anglian's 26.2m losses from its non-regulated husinesses last year this looks desirable. And Anglian could increase dividends per share by 11 per cent, while maintaining the

hain to say

same total dividend pay-out.

Even excluding the benefits of buy backs. Anglian shares offer a prospec-tive dividend yield almost 50 per cent higher than the market average. This reflects the risks of harsher regulation under a Labour government but the prospect of an enhanced dividend pay-out in the short-term should offer potential share price gains.

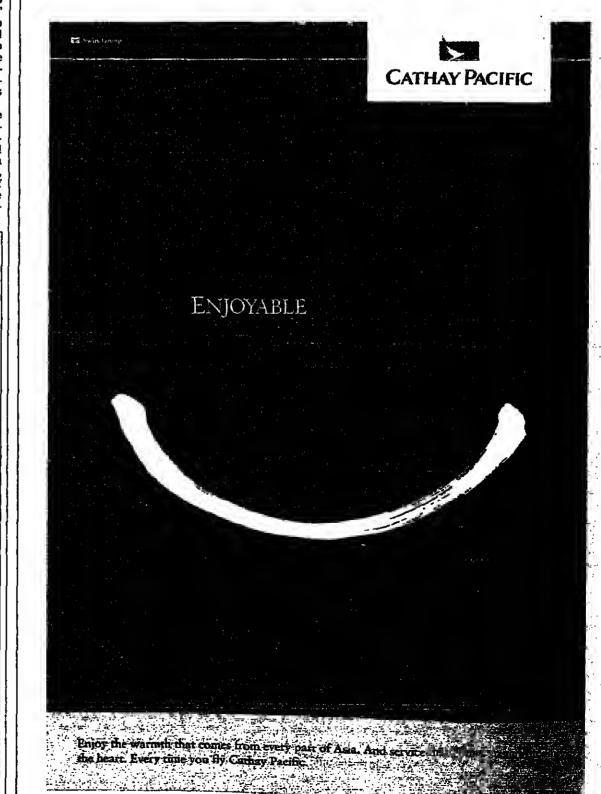
BAA's financial flight-path remains monotonously true. Its twin motors are a relentless rise in passenger num-bers and continued increases in the amount they spend as they pass through the company's airports. Both engines are revving up. The group, studiously conservative, increased this year's passenger growth forecasts from 4 per cent to between 5 per cent and 6 per cent. That is partly because the impact on passenger volumes from Eurostar, the recently introduced train service between London and the French and Belgian capitals, has been less than expected. Meanwhile, spending per passenger is accelerating as refurhishment at the London terminals draws to a close. The performance at newly refitted shopping areas augurs well for the future in the last quarter, spending was up 5 per cent. Lastly, the more relaxed regulatory regime for airport charges should boost revenues from this year on. Unlike many privatised companies

BAA has not rushed into ill-considered overseas diversification. The group has significant expertise in retailing property, and operating airports. It would be too easy for BAA to sell its skills cheaply by taking small stakes in privatised airports. So its softly, softly, approach is to be applauded. The prospect of a large participation in the Australian privatisation, and a 10-year management contract at Indianapolis, are in the right direction.

That does not mean no clouds loom The Accounting Standards Board is proposing changes to the treatment of deferred taxation which would hit personant and an extension BAA hard due to its large capital. investment programme. Cash flow and dividends would be unaffected. But in net assets and earnings would undoubtedly influence sentiment

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Company the second



Europe today

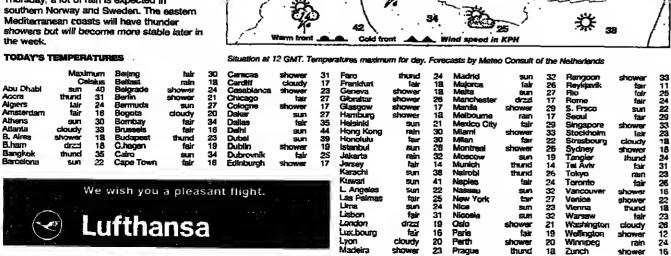
east. An associated frontal zone will cause cloud and rain in the northern British Isles but clearing will occur during the afternoon A ridge of high pressure will bring sunny conditions to western France, northern Portugal and Spain. Southern England. Ireland, the Low Countries and Germany will have sunny spells and showers. Low pressure will cause thunder showers over southern Portugal, the Alps and the Balkans. An old frontal zone from Sweden towards the Black Sea will cause cloud and some thunder showers. East of the front, in southern Italy and Greece, it will continue warm and sunny.

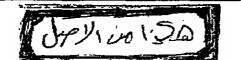
Low pressure north of Scotland will move

Five-day forecast

Northerly winds between high pressure west of Ireland and a depression over the North Sea will cause cool and showery conditions in north-west and central Europe. Eastern showers while the CIS will stay sunny. On Thursday, a lot of rain is expected in southern Norway and Sweden. The eas Mediterranean coasts will have thunder showers but will become more stable later in

TODAY'S TEMPERATURES







FINANCIAL TIMES

COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1995

India's

leading

launches

share offer

bank

from its holding.

improve IDHI's debt-equity ratio

to 5-1 from 8-1. The bank has a

The bank has financed itself

through its own operations for

the past three years, but has pinned ambitions for further growth to this first public share

Mr Khan said the bank's aggre-

gate assistance to Indian indus-

try exceeded Rs900bn by the end

The institution has been cen-

tral to the establishment of other

and Investments Board of India.

the stock market regulator; the

country's export-import bank and

the on-line National Securities

Exchange (NSE). Its ectivities

include merchant banking,

equity investment, fund manage-

ment, rupee and foreign currency

lending IDBI's first commercial

banking operations are expected

to commence this year.
The bank'e audited results will

be published later this month,

but Mr Khan expected annual net

profits of Rs7.7bn, a 17 per cent improvement. The bank has reported compounded annual

growth rates of 27 per cent in loan sanctions, 21 per cent in dis-

bursements and 30 per cent in profits over the past five years. The issue's lead managers,

which include SBI Capital Mar-

kets, ENAM Financial Consul-

tants, DSP Financial Consultants,

J. M. Financial and Investment

Consultancy Services and the Bank of Baroda, expect e strong

response, despite the recent

weakness of India's primary and

secondary share markets. The issue will be listed initially on

the Bombay Stock Exchange and

the NSE.

s, including the Securities

of the last financial year.

total asset base of Rs340hm.

offering.

Tuesday June 6 1995

Fletcher King COMMERCIAL PROPERTY CONSULTANTS 071-493 8400 BIRMINGHAM MANCHESTER NORWIC MORTHAMPTON

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share price pain

Spain to say 'Adiós' to INI

Spain's Instituto Nacional de Industria, the state holding concern set up by the Franco regime in 1941 and now at the head of a group of companies with annual sales of about \$20m, is set to disappear under reorganisation plans from the industry minis try. Page 19

Prench banks deny merger plan Two of France's biggest financial institutions — Banque Nationale de Paris and the UAP insurance group - said they had discussed pooling their activities with a third, the Suez investment and financial services group, but stressed they had not agreed any specific merger plan.

Meanwhile Société Générale, one of its leading private sector French banks, has written to clients of Credit Lyonnais, its state-owned rival, trying to per-suade them to transfer their business.

Aircraft maker cuts through workers Embraer, the Brazilian aircraft maker, is asking one in three of its workers to take voluntary redundancy. Page 19

tiong Kong watches Mr LPs actions
The decision by Mr Li Ka-shing, Hong Kong's leading entrepreneur, to move control of Cheung Kong, his flagship property company, offshore just two years before China regains the colony reminded many of the adage "actions speak louder than

words". Page 20 Emap to tune into Metro radio Emap, the UK media and exhibitions group, wants to expand in commercial radio and will be looking at the Metro group following the announcement yesterday that the Newcastle-based broadcaster's

Ladbroke sells US property Ladbroke the UK hotels and betting group, has cut its property portfolio by one-fifth with the sale of the Bay Colony Corporate Center in Boston, Massachusetts, for \$163m to The Shorenstein Company, e

two largest shareholders want to sell their stakes.

property group based to California, Page 22 A drop in the ocean from water group Anglian Water, the UK utility, will refund each of its customers £6 (\$9.42) this year. Consumer groups say the rebate is a drop to the ocean compared with the company's hefty dividend increase and share buy-back programme. Page 22; Lex. Page 16; Editorial Comment, Page 15

Accountant sees growth in eastern Europe Price Waterhouse, the accountancy firm, offset dis-appointing see income results in the UK by pointing to growth of 60 per cent in eastern Europe.

Electrocomponents shares advance Shares in Electrocomponents rose 5.5 per cent yesterday after the electronic, electrical and mechanical components distributor reported an increase in pre-tax profits from £72.7m to £86.1m.

After South Korea's general share index hit a low for the year on May 27, the government announced a package of market-boosting measures.

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Chief price changes vesterday

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able on profits. The proposed standard would

year programme. Mr Nigel Ellis, finance director, expected the rule change to come about later this year, which would lead to BAA showing a 35. per cent tax charge, against an effective rate of 24 per cent last year, and a drop in net assets of

£300m-£600m. Mr Ellis said after the rule change, gearing, which was 32.8 per cent at the year-end, would cent target.

expectations, and revenues rose 6 per cent to £1.16bn. Passenger have a particular effect on com-

senger numbers would grow 5-6 per cent this year.

Sir John Egan, chief executive, said the opening of the Channel tunnel had resulted in the loss of 25,000 passengers a week, less than the group had predicted. Retail income increased 10 per

cent to £361.9m, although income per passenger was only 2.6 per cent ahead. BAA expects to sign a 10-year management contract for the Indianapolis airports system in the US next month. It is also part of a consortium that will bid for airports in Australia. Earnings per share were 16 per

cent higher at 27.3p against 23.5p. A final dividend of 6.375p makes a total of 10.125p, a 13 per cent

Louise Kehoe, Paul Taylor and Alan Cane report on IBM's bid for the software house which some see as a 'merger made in heaven'

nternational Business
Machine's \$3.5bn unsolicited
bid for Lotus Development,
the US software house best known as developer of the 1-2-3 spreadsheet program, is a hugely risky but ambitious move by the world's largest computer manu-

Analysts yesterday epplanded the bid which one said could lead to e "merger made to heaven". By Mark Nicholson in Bombay IBM has been recovering from India's leading finaucial institution, the Industrial Develseveral years of heavy losses pre-cipitated by e sharp shift in the data processing industry eway opment Bank of India, yesterday formally launched the country's from expensive mainframes and biggest public share offering with towards lower-cost networks of

personal computers (client-server architectures).

Lotus, after making its mark with 1-2-3 in the 1970s has since an issue designed to raise Rs23.7bn (\$754m). The IDBI was formed in 1964 as India's premier state industrial development institution. The had a lacklustre performance, but has a spectacularly successful product - Lotus Notes - for Indian government last October decided to allow the development bank, the world's 10th largest, to personal computer networks. It float up to 49 per cent of its has already sold some 1.7m copies, eccording to Detaquest,

The offer, which opens on July 5 for seven days, will be of 168m shares priced at Rs130 each, repthe marketing consultancy. The two companies complement each other. Observers resenting e 25 per cent stake in IDBL The government will offer believe, however, that for IBM the acquisition of Lotus is an an additional 2 per cent stake important element in its strategy to hold at bay Microsoft, the Mr S. H. Khan, IDBI's chairman world's largest software house and managing director, said that on present values, the book value and the company which has inherited IBM's mantle as the beliwether of the industry.

of the share would be Rs75, but the lead managers recommended Microsoft is set to launch in a price based on the bank's pre-August an advanced software eminent position in India and its control program for personal computers, Windows 95, which could strengthen its hold on the sound profit record and pros-He said the issue was designed PC market. Its earlier Windows to meet the bank'e funding software now runs on nearly 90 per cent of all the world's 150m PCs. IBM's advanced operating requirements and strengthen its equity hase to permit further borrowing, with e view to lending to system OS/2 Warp has been on big power, telecoms, oil refining the market since last year but and steel projects, which since has e share of less than 5 per cent and has made little impres-sion on Windows. 1991 have been open to private sector investment. The issue will

IBM's client server hardware running Warp and Lotus Notes software could represent formidable competition for Windows 95. The logic of such a combination has not escaped industry ana-

In an open letter last month to Mr Jim Manzi, Lotus's chairman and chief executive, Mr David Coursey, editor of PC Letter, an industry newsletter, called on Lotus to seek a merger with IBM. "IBM is the logical, motivated buyer," he said. "IBM needs Lotus applications." Lotus also has a highly regarded electronic mail product CC:Mail and a powerful word processor, WordPro.

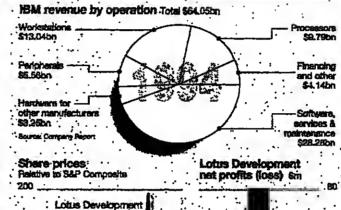
Taking over Lotus is risky for IBM for a number of reasons. Hostile takeovers in the software industry are rarely successful. Software houses have few assets other than the intelligence of their staff who leave if they find the deal unsatisfactory.

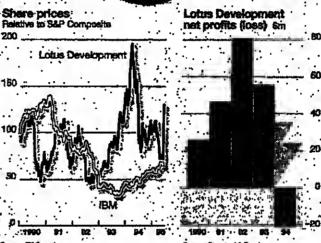
• IBM has a poor reputation for software house, but its stock is

The risks of adopting the Lotus position

Big bite for the Big Blue







they have no other option. It has no track record in managing or marketing applications software

such as Lotus Notes.

· Mr Lou Gerstner, IBM chairman, has more experiencs of divestitures than large-scale ecquisitions. In previous existences at American Express and R.J.R. Nabisco he was noted chiefly for cost-cutting and restoring balance sheets through disposals. He said: "I have done a lot of acquisitions in my career,

over-engineered, cumbersome also a lot of divestitures. It mainframe software that custom- alweys looks easy. 'Gee, jnst be, how much more powerful we would be'...but an acquisition does not begin until after you have paid the money and all the stories have been written.

"Then you have to deal with how to integrate the company, to merge cultures. In e consumer packaged goods company, or a banking institution you can buy e stand-alone piece, and it can operate on its own. That is where ecquisition strategies work." Lotus has e marketing and

development agreement with AT&T, the largest US telecoms operator, to make Notes available for businesses using the public telephone network. AT&T yesterday refused to comment on the IBM offer or whether it would make a competing bid. If IBM's bid for Lotus succeeds, it would mark a further step in the consolidation and concentration which has been under way to the office software market.

"There is a need to get bigger

and to become e certain size to keep growth up," says Mr Victor Basta, UK managing director of Broadview Associates, the con-sultancy specialising in mergers and acquisitions to the informa-tion technology industry.

Two main factors are driving this trend. First, the price of "shrink-wrapped" software products for personal computers is falling. Meanwhile, the investment required to fund the development of innovative desktop products, such as Notes - and market them effectively - is escalating rapidly.

hese twin problems are particularly acute for medium-sized software companies such as Lotus. Its proposed \$1.5hn merger with Novell in 1990 was abandoned after the two companies failed to agree on board control.

Mr Manzi was seen as the driving force behind that proposed deal but he could not reach agreement with Mr Ray Noorda, then president of Novell, on the number of directors from each

Since then the software industry on both sides of the Atlantic has been a hothouse of deals and manoeuvrings. "I think it is fair to say in this particular market almost everyone is having con-versations with everyone else," says Mr Basta. Lotus is widely believed to

have held discussions recently with potential partners including Oracle and Novell which itself purchased WordPerfect for \$1bn a couple of years ago.
According to Broadview Asso-

ciates, the total value of US soft-

ware product and services mergers and ecquisitions rose from \$2.6bn in 1992 to \$5bn in 1993 and reached a record 59bn last year. However, Mr Basta believes the seems that the process of consolidation is accelerating," he says. Computer Associates last month announced e \$1.7bu bid for

Mr Basta believes that an IBM/ Lotus deal would make a lot of sense for both companies: "in one fell swoop IBM is buying a whole family of products for the desktop market.

Lex, Page 17; Editorial Comment, Page 15

Kmart raids The Museum for chief

Kmart, the troubled US retailing group, yesterday ended its long search for a new chief executive by announcing the appointment of Mr Floyd Hall, a 57-year-old US retailer who once worked for

Sir James Goldsmith, the Anglo-French financier. Mr Hall replaces Mr Joseph Antonini, who resigned under pressure in March. He is also taking over as Kmart's chairman from Mr Douglas Perkins, who reverts to his previous position as a uon-executive member of the board.

Mr Hall comes to Kmart from The Museum Company, a privately held store chain that he founded in 1989. The company has 63 stores in the US and Canada selling reproductious of pieces from more than 200 museums worldwide.

Mr Hall was chairman and chief executive of the Grand Union supermarket chain from 1984 to 1989, during which it was owned by Sir James Gold-smith. He previously headed Tar-get Stores, the discount store division of Dayton-Hudson.

Grand Union is undergoing reorganisation under Chapter 11 of the US bankruptcy code. However, Kmart said Mr Hall had led a successful turnround of the company while he was there, taking it from losses of \$115m in 1983 to pre-tax profits of \$80m in 1987. The company was subsequeutly acquired by Mr Gary Hirsch, the US grocery tycoon, to a \$1.2bn leveraged bny-out. Mr Joseph Flannery, chairman

of the Kmart board of directors search committee, said Mr Hall had achieved excellent operating and financiel results and strengthened the performance of every company he had served, foften at critical periods in their history". At Target - now one of **Emart's strongest competitors** -Mr Hall bad increased the number of stores from 97 to 205, increased sales from \$1.3bu to \$3.1bn and nearly tripled operat-

The market welcomed the appointment, marking the shares up \$1 to \$13% at lunchtime. This partly reflected the fact that Mr Hall was made chairman as well Legent, e mainframe software as chief executive, suggesting he had been given a free hand. Battered by competition from Wal-Mart Stores and Target, Kmart has suffered nine consecutive quarters of deteriorating results and last week announced its second big store closing programme in less than nine months.

Dear Jim: We are coming for you . . . ready or not

Extracts of the letter sent to Jim Manzi from Louis V. Gerstner, Jr.

IBM has been interested for some time in pursuing a business combination with Lotus. Because you have been unwilling to proceed ... we are announcing this morning our intention to buy all of Lotus **Development Corporation's** outstanding common shares. We believe this is now the

Mr Nimesh Kampani of J. M. Financial, said the issue fastest, most efficient way to bring our companies together. price of Rs130 represented a price-earnings ratio of 8.6 on We have the highest respect for you and all Lotus employees. We earnings at the end of March. believe our companies share The bank expects net profits to similar visions of the future of rise to Rs13hn by 1997 on total income of Rs58hn. There are no This is truly a win/win plans for further issues to reduce opportunity for IBM and Lotus

customers. With IBM's global marketing and sales capability, we can rapidly grow Notes' user base and vastly increase its sales potential and acceptance as an open industry standard.

We respect the creative environment and entrepreneurial spirit you have fostered at Lotus. We do not want to change that. We believe Lotus's employees are among the best in the industry at developing innovative and successful products. Our intent is to keep Lotus intact and managed out of its current headquarters in Cambridge and to make Lotus primarily responsible for key, complementary IBM software

April 1995



RILP S.r.I. (a majority-owned subsidiary of the Riva Group)

has acquired

Ilva Laminati Piani S.p.A.

ISTITUTO PER LA RICOSTRUZIONE INDUSTRIALE (IRI) S.p.A.

> The undersigned acted as financial advisors to the Riva Group, assisted in the negotiations and arranged the financing.

Salomon Brothers



the state's holding to 51 per cent. Reserves at UK airport group may be hit by rule change penies with large capital expenditions programmes on which they receive capital allowances. BAA 87.7m, with Heathrow ahead 7.5 per cent and Stansted up 20.2 per cent. Mr Ellis forecast that passes By Gooff Dyer in London

BAA, the privatised UK airports group, said a new accounting practice for deferred corporation tax could cause a one off cut in

reserves of up to £600m (\$967m). The group, which posted a 14 per cent increase in pre-tax profits, is the first UK company to estimate publicly the impact of the proposed rule change, on which the Accounting Standards Board published a discussion paper in March.

The ASB recommended the practice of "partial provisioning"; which allows companies to judge when their tax liabilities will appear, should be replaced by full provisioning, which reflects the tax ultimately pay-

had £440m of capital expenditure last year, part of a £1.4bn three-

not breach the company's 50 per The rise in pre-tax profits to 2366m in the year to March 31, from £322m, was in line with

Two of France's higgest financial institutions - Banque Nationale de Paris and the Union des Assurances de Paris insurance group - said yesterday they had discussed pooling their activitles with a third, the Suez investment and financial services group, but stressed they had not agreed any spe-

cific merger plan. BNP and UAP, which both have a stake in Suez, said they were concerned about Suez's profitability and future

The recent sale of its Victoire insur-

Ifil climbs

to L280bn

at net level

By Andrew Hill in Roma

paper company.

per savings share.

with a record loss of L1,783bn

in 1993, and a return to divi-

Mr Umberto Agnelli, Ifil's

chairman, said the fact that

Ifil bad pusbed up consoli-

dated profits by an average of

25 per cent a year for the last

five years "confirmed the validity of the company's

Ifil bas spread its invest-

ments both geographically and

by sector so that its interests

now include retailing, botels

and tonrism, and cement

Net debt fell to L604hn at

the end of 1994 from L1 107bn.

and currently stands at

L220bn. Ifil said it expected a

further improvement hefore

June 6, 1995:

Switzerland

from the shereholder.

Cham and Vevey, June 1, 1995

the end of the year.

strategy

manufacture.

dends on ordinary sbares.

plenty of cash, apparently coveted by both BNP and UAP to back their own expansion, but without a clear strategy for the future.

"Suez needs to define the broad out-lines of its future strategy." UAP said, adding that this was "the sole responsibility" of Mr Gérard Worms, president of Suez, and his board. The Suez board is expected to meet

The statements came at the end of a day of confusion that started with Le Monde newspaper reporting that the French government had blocked a plan for a three-way merger between BNP, been Europe's largest financial conglomerate valued at FFr120bn But the government later said it had

not been informed of any such scheme and therefore had no comment to offer. The reports follow months of speculation about BNP's intentions towards Suez, after the bank bad by the start of this year built up a 5 per cent stake in

BNP reitereted yesterday that its Suez share purchases were for investment purposes.

However, the Crédit Agricole bank, which also has a stake in Suez, recently

said it was watching BNP's moves with "vigilance". BNP has been believed to be particularly interested in gaining control of Suez's wholly-owned banking subsidiary. Banque Indosuez, which has geographic and sectoral strengths in Asia and in capital markets that BNP

Plans by Mr Michel Pébereau, BNP president, for a rapprochement with Suez were said to have encountered strong and possibly fatal opposition from Mr Worms and most of his board. Mr Worms is said to be reluctant to see his group's resources used simply to belp BNP expand its banking

bank with two subsidiaries of

Nevertheless, Société Génér-

ing French financial institu-

tion - which does not wish to

be named – has told the Finan-

cial Times that its clients have

It argues, as does Credit

Lyonnais, that its clients have

heen identified and written to

at addresses not available

through public information

but which may bave been read

off personal details printed on

their cheques - which are

processed locally by Société

protection watchdog, confirms

that it is investigating such

complaints, which appear to

clients and rivals' clients may

policy on marketing around

no specific control or guideline

on the approach taken by its

mission and the Paris commer-

cial courts reach. while retail

banking remains under finan-

cial pressure, aggressive tac-

Whatever verdicts the Com-

he Commission Nat-

ionale de l'Informatique

et des Libertès, a data

been targeted by the bank.

Paribas.

Valmet bounces back into the black

By Christopher Brown-Humes

Valmet, the Finnisb paper machinery and engineering group, rebounded into the black in the first four months, reporting e FM97m (\$22.5m) profit for the period after osses of FM230m a year ago. The performance was much better than expected at the start of the year, reflecting e quicker delivery schedule and

est rate movements. Sales jumped 44 per cent to FM2.25hn, mainly because of the npturn in the biggest division - peper and board

favourable exchange and inter-

machinery - where sales rose to FM1.69bn from FM1.19bn. The other four divisions, covering automation, car assembly, aviation and power transmission, also improved their

There wes an operating profit of FM177m before deprecietion, reversing a loss of FM44m year ago. Net financial income amounted to FM24m, after expenses of FM55m e year ago, partly because lower deht eased the group's interest hurden.

Valmet said full-year profits would exceed last year's FM203m, belped by higher sales and a leaner financing structure.

The main impact is expected to come from the paper and board machinery division. As one of the world's three hig suppliers of paper machinery, Valmet bas seen a surge in orders because of the upturn in the pulp and paper sector. The board and machinery

breach rules on the way in which data beld hy banks on unit received new orders worth FM4.2hn in the first four months, more than twice Société Générale says it has last year's level, taking its order backlog to FM7.36bn, up been operating a decentralised 45 per cent from the end of the the country and that it has had

The company has picked up many of the new machinery orders placed by Nordic pulp and paper groups, including Kymmene, United Paper Mills,

Metsä-Serla and Stora. The group's overall order backlog at the end of April was worth FM8.9hn, up 45 per cent from the same month a

UK group to form 10 go ul Polish equity fund have subsequently fallen back but capitalisation still stands at about \$40n. The number of convergenced to the stands are supported to the stands. International investors are to

be offered an opportunity to participate directly in Poland's rapidly growing stock market with the imminent launch of the Polish Investment Company by Foreign & Colonial Emerging Markets, the UKbased investment management

The new Luxembourg-based open-ended investment fund is aiming to raise between \$25m and \$35m, although this amount could be raised to

Although it is one of a number of funds formed in the last three years to target the Polish and east European markets, it is understood that the FCEM vehicle will be the first listed open-ended fund investing exclusively in Polish equities. The fund will close at the end of the week

Mr Scott Delman, head of emerging Europe et FCEM, said the fund was initially targeting about 15 of the 49 companies listed on the local exchange. Capitalisation of Poland's markets has increased from some \$300m in early 1993 to \$7bn early last year. Prices Delman.

expected to increase at the rate of about two a month in 1995. The market is currently trading on a forecast price earnings ratio for 1995 of 9.5, Mr Delman

The fund will seek a balanced exposure to the Polish market, which has henefited from radical economic reform and rapid growth in recent years, FCEM said the Polish economy currently displays characteristics similar to those seen in the Asian tigers in the

1980s". Advised locally by the Polish Development Bank, the fund is expecting to be underweight in the Polish banking sector, which accounts for about 35 per cent of the market's capitalisation.

white public t

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er restructu

It will be overweight in a group of medium-sized industrial companies, with capitalisations of between \$40m and \$125m. Examples of the latter category are Debica, Poland's largest tyre company, and Rafako, which makes industrial boilers, according to Mr

Portugal set to open derivatives exchange

By Richard Lapper

The Portuguese government is expected later this week to give the go-ahead for the long-awaited Oporto-based derivatives exchange.

The legal text outlining new rules for futures and options trading in Portugal will he submitted to Portugal's council of ministers on Thursday, paving tha way for the Oporto stock exchange to begin trading two futures contracts in November.

"The exchange will attract more international investors and give more liquidity to the underlying cash market," said Mr Manuel Alves Monteiro. chief executive officer of the

tion of futures trading would

tication of Portugal's markets. Trading at the new market will initially be in two products - futures contracts on the new PSI-20 share index and on the OT 10, the 10-year government bond introduced in 1993. Trading in the cash market

stock exchange. Mr Alves Monteiro said the PSI-20 index - launched in January this year - accounted for about 78 per cent of the market's capitalisation and about 80 per cent of its trading vol-

closed at Oporto last year and

is now based on the Lisbon

Trading at the market will be entirely electronic, following the successful pattern established by Meff, the Span

Daggers drawn in French banking

SocGen has struck out at rival Crédit Lyonnais, writes Andrew Jack

"In an uncertain economic climate, perhaps you have the feeling that your bank Ifil, the Italian industrial has difficulties . . . we can bolding company, increased net profit to L280bn (\$171m) in offer you some really competitive options".

1994 from L231bn a year o begins a letter circu-The group, part of the comlated earlier this year to clients of Credit Lyonplex business empire beaded by the Agnelli family, was nais, the biggest state-owned belped by good results from its French bank, by Société Générmain boldings in Fiat, the ale, one of its leading private automotive group, and Saint Louis, the French food and sector rivals, in a move which has triggered a debate over the bitter rivalry between the two

Ifil is recommending an L5 The way in which the issue dividend increase for botb has developed has highlighted ordinary and savings sharebolders. They will receive L110 a broader range of issues about per ordinary share, and L130 the tough competitive environment facing French banks, and Last Friday, Fiat confirmed the increasingly aggressive tacits return to profitability, tics that they are taking in announcing a net profit of L1,011bn for 1994, compared

Credit Lyonnais, submerged under negative publicity for nearly two years because of its growing financial losses, decided it had bad enough when it beard from its clients that they had received letters from its rival trying to persuade them to transfer their

It emerged last week that It had decided in mid-May to sue Société Générale in the Paris commercial court for "unfair competition" and "misleading advertising" as a result of the claims made in the letter. The case is due to he heard at the end of this month.

Société Générale does not deny that it sent letters. However, it claims that the statements made were nothing more than "healthy competi-

NESTLE S. A

NESTLÉ S.A., CHAM and VEVEY

Payment of dividend

Natice is hereby given to shareholders that following a resolution of

the General Meeting of shareholders held on June 1, 1995, the fallow-

ing dividend for the business year 1994 will be paid in them as from

All dividends will be peid by bank trensfer to the shareholder's

eccount nr by cheque, in accordence with the instructiona received

gross CHF 26.50 per share

tion" and that it did not name Crédit Lyonnais nor simply target that bank in its marketing campaign.

At one level, Crédit Lyonnais' resort to the courts could be seen as an escalation in the increasingly acrimonious and unusually public debate between it and some of its lead-The last few months bave

The action by Société Générale reflects broader concerns among banks about declining profitability

attack by Société Générale, allied with Banque Nationale de Paris and since joined by several other private sector hanks, against the French state - notably criticising its plans to rescue Credit Lyonnais.

Mr Marc Vienot, chairman of Société Générale, broke with the usual discreet French approach to lambast as "anticompetitive" plans hy the government to guarantee the removal from the halance sheet and eventual sale of FFr135bn (\$27.5bn) in assets

from Crédit Lyonnais. He has since threatened to take Credit Lyonnals to the European Court if his submissions to the European Commission calling for a restructuring of the rescue package do not bring ahout his desired The plan is currently being

ale's approach appears more eggressive than those of its scrutinised by officials in rivals, and goes beyond an attack on Crédit Lyonnais But Société Générale's action alone. At least one other leadechoed by some of its other

competitors - reflects broader concerns by the banks about declining profitability. "The whole of universal banking worked on the basis of cross-subsidies," says one

"Now the options are being cut away, they are looking for Until now, he argues, banks could take advantage of their

more profitable capital market activities or high interest rates to subsidise less lucrative retail banking. Now that these approaches have become less easy, they have had to change That may be one explanation why the French banking asso-

increasingly vocal about a range of uncompetitive aspects in the French banking environ-They are protesting against the special accounts for notaries - most of which are depos-Ited with Crédit Agricole - and the fiscal advantages granted

to the country's large mutual

ciation and many of its mem-

ber hanks bave become

banking sector. Also under attack are the sale of state-hacked "Livret A" interest-bearing accounts to which they have no access, and developments such as a recent proposal hy Crédit Local de France to establish a new

tics such as those currently alleged are likely to grow stronger in coming months.

local divisions.

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The Bank of New York

June 5, 1995

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ECU 50,000,000 Parbel International Finance N.V.

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Fnr the period June 01, 1995 to September 01, 1995 the new rate hee been fixed at 5,738285 % P.A. Next paymant data: September 01, 1995 Coupan nr: 6
Amount:
FRF 1465,45 for the denomination of FRF 100-909 FRF 14664,51 for the denomination of FRF 1 000-009

THE PRINCIPAL PAYING AGENT SOGENAL SOCIETE GENERALE GROUP 15, Avenue Emile Reuter - LUXEMBOURG

SGA SOCIETE GENERALE ACCEPTANCE N.V. FRF 500,000,000 REVERSE FLOATING RATE NOTES DUE SEPTEMBER 2003 ISIN CODE: XS0044791738

THE PRINCIPAL PAYING AGENT SOGENAL SOCIETE GENERALE GROUP 15, Avenue Emile Reuter - LUXEMBOURG!

For the period Juna 01, 1995 to September 01, 1995, the new rate has been fixed at 2,3613325 % PA
Next payment date: September 01, 1995
Coupon n: 5
Amount
FRF 603,45 for the denomination of FRF 100 000
FRF 6034,52 for the denomination of FRF 100 000

THE PRINCIPAL PAYING AGENT SOGENAL SOCIETE GENERALE GROUP 15, Avenue Emilie Reuter - LUXEMBOURG



less Swiss federal withhulding tex of 35%.

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INTERIM REPORT January - March 1995

- Gross revenue MSEK 5,366 (3,906) +37%
- Profit after depreciation MSEK 1,102 (390) +183% Profit after net financial items MSEK 1,081 (344)
- Equity/assets raun 56% (58% 31 Dec. 1994) Quarterly earnings per share after full tax SEK 6.60
- (16.50 whole year [994) Return nn equity 18% (14% 1994)
- Return on capial employed 21% (16%)
- Empee Eindhoven BV wholly-owned Vilhelmina-Sägen AB sold

AssiDomän AB, S-105 22 Stockholm, Sweden. Phone +46 8 728 08 00 Fax: +46 8 728 08 16.

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Tha Board of Directors

U.S. \$250,000,000 Deutsche Mark LIBOR Based Toeting Rate Notes due 2002

For the Interest Period Sth June, 1995 to 5th September, 1995 the Notee will carry an Interest Rate of 5.375% per annum with Coupon Amounts of U.S. \$13,74, U.S. \$137.36 and U.S. \$13,736.11 per U.S. \$1,000, U.S. \$10,000 and U.S. \$1,000,000 Notes respectively. The relevant interest Payment Date will be 5th September, 1995.

Swiss Bank Corporation

BANQUE NATIONALE DE PARIS imme for the Issuance of Dabi kastroments USD 10,000,008

Ficating Rate Notes due 2004 Series 22 Tranché 1 Notice is heroby given that the rate of interest for the period from June 6th, 1995 to Occamber 6th, 1995 has been fixed at 5 885 per cent, per annum The coupon amount due for this period is USD 2,99154 per denomination of USD 100,000 and is payable on the interest peyment date Documber 6th, 1995.

Payment of Dividend

VOLKSWAGEN AG

Notice is hereby given to shareholders that following a resolution passed at the Annual General Meeting of shareholders held on 1st June, 1995 a dividend for the financial year ended 31st December, June, 1995 a dividend for the financial year ended 31st December, 1994 will be paid, as from 2nd June, 1995, at the rate of DM 3.00 per ordinary share of DM 50 norminal value against presentation of Coupon No. 34 and DM 4.00 per eligible preferred share of DM 50 norminal value against presentation of Coupon No. 9.

All payments will be subject to a deduction of German tax at a rate of 25 per cent, and a 'solidanty contribution' of 7.5 per cent, on this amount end, in the absence or evidence as to the recipient's nonresidence in the United Kingdom, a further deduction of United Yingdom income tax at e rate of 5 per cent.

Coupons should be ladged with: S.G.Warburg & Co. Ltd.

Paying Agency, 2 Finsbury Avenue, London EC3M 2PP from whom appropriate claim forms can be obtained.

Coupons will be paid at the rate of exchange on the day of presentation Under certain conditions, shareholders residing in the United Kingdom can claim a partial retund of the deducted German tax, and the 'solidarity contribution' in accordance with the double taxation treaty between the United Kingdom and Germany The German tax, and the 'solidarity contribution' chargeable in accordance with that treaty is treated as a credit and can be set against the income tax liability of a shareholder resident in the United Kingdom. The Company's United Kingdom paying agent will, upon request, provide shareholders or their agents with the appropriate form to enable a refund request to be made to the German

Wolfsburg, June 1995

The Coard of Manager

EUROPEAN COAL AND STEEL COMMUNITY GBP 52.700.000 FLOATING RATE NOTES DUE 1997 ISIN CODE: X\$0037796298

Fnr the period Mey 31, 1995 to November 30, 1995 the new rate has been fixed at 6,325 % P.A. Next peyment dete: November 30, 1995 Coupon nr: 7 Amount:

GBP 31,71 for the denomination of GBP 1 000 GBP 317,12 for the denomination of GBP 10 000

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TRILL FREE NUMBERS: USA ANO CANADA: 1800) 426 31 35

For the period June 1st, 1995 to December 1st, 1995 the new rate has been fixed et 8,55437% P.A. Naxt payment date: December 1st, 1995 Coupon nr: 5
FRF 427,72 for the denomination of FRF 10 000 FRF 4277,19 for the denomination of FRF 100 000

THE PRINCIPAL PAYING AGENT SOGENAL SOCETE GROUP 15, Avenue Emile Reuter LUXEMBOURG

ish futures exchange. exchange. He added that the introduc-The idea of a Portuguese derivatives exchange was first increase the profile and sophisproposed in 1991. -Hammonton, NJ USA Sensational, one-story, 33.472 m² pharmaceutical manufacturing facility on 38,039 hectares 5.502 m² of modern, air-conditioned office space Paved parking for 600 cars Excellent truck loading capabilities

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For the period June 01, 1995 to September 01, 1985, the new rate has been fixed at 4,488285 % P.A.

Next payment date: September 01, 1995.

Coupin nr. 5

Amount:
FRF 1147 01for the dannination of FRF 100 008

SGA SOCIETE GENERALE ACCEPTANCE NO FRE 800,000,000 REVERSE FLOATING RATE NOTES DUE DECEMBER 2003 ISIN CODE : XS0046033972

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INTERNATIONAL COMPANIES AND FINANCE

ity fun LNI to go under Spanish state industry plans

By David White in Madrid

Spain's Instituto Nacional de Industria, the state holding concern set up by the Franco regime in 1941 and now at the head of a group of companies with annual sales of about 200m, is set to disappear under reorganisation plans from the industry ministry.

The plan put forward by Mr Juan Manuel Egulagaray. industry minister, is designed to simplify the structure of state participations under his nsibility and remove a layer of bureaucracy. -

Officials said the Spanish cabinet was likely to discuss the proposed changes in the next few weeks.

If the plan is approved, INIwill cease to exist. Its head-

quarters building in central Andrid is expected to be sold. Also likely to disappear is Instituto Nacional de Hidrocarburos, a unit created in 1981 to run INI's oil and gas interests. These have since been reorgansed with the creation of the Repsol group in 1987. INH, the vehicle through which the state holds its remaining participation in the largely-privatised group, no longer has any separate structure of its own. Under the plan, profitable or

potentially profitable state interests would be grouped under a new state holding unit, This would bring together participations in Repsol and in state-run tobacco company.

company set np three years ago as part of INI to look after subsidiaries that were financially sustainable and might be candidates for privatisation.

Teneo, which includes the leading power generator End-esa as well as the Iberia airline, showed consolidated net profit of Pta30.3bn (\$249m) last year, compared with a loss of Ptal37.5bn for the INI group.

The "umbrella" unit would take over responsibility for INI's outstanding dabts of about Pta700bn and act as a vehicle for the state a participations, but would have uo direct role in management.

INI's subsidiaries in the troubled mining, steel, shipbuilding and defence industries would be grouped separately under a State Industrial Agency, which would act as the channel for European Union-approved gov ernment subsidies.

The ministry said the reorganisation was intended to maka a clearer distinction between the lame-duck companies depending ou support from the state budget, and other interests.

The scheme does not affect other Spanish government interests under the aegis of the economy and finance ministry, including holdings in the Telefónica telecommunications group, the Argentaria banking concern and Tabacalera, the

Provigo ahead 30% after restructuring

Provigo, Canada's secondbiggest food distributor, posted higher first-quarter net profit as a result of restructuring and the sale of loss making units, writes Robert Gibbens.

Profit for the three months ended April 22 was C\$13.4m revamp and was concentrating (US\$5.7m), or 15 cents a share, on the big Quebec and Ontario up 30 per cent from \$ 0.3m, or

Provigo is 36.7 per cent owned by the Caisse de Depot, Quebec's public pension fund Mr Pierre Mignault, presi-

dent, said Provigo was half way through a system-wide on the big Quebec and Ontario markets.

Silgan to buy Pechiney packaging arm in US

By John Ridding in Paris

COTICETIL.

Pechiney, the French stateowned aluminium group, is to sell its US food and specialty packaging business to Silgan, a North American packaging

The value of the transaction was not disclosed, but Pechiney said that the business concerned, part of its Ameri-can National Can subsidiary, recorded sales of \$597m last year. Sixteen plants, employing about 1,800 workers, are included in the deal.

The sale reflects Pechiney'a atrategy of selling non-core assets to reduce its borrowings and strengthen its balance sheet shead of planned privati-sation. Mr Jean-Pierre Rodier, chairman, has said that sev eral other assets, including Howmet, a turbine compo nents manufacturer, and ANC's beverage glass packaging business, may also be sold as part of its privatisation

strategy. Silgan said the acquisition would broaden its product range and the geographic scope of its operations.

The company, which was founded in 1987, produces a broad range of metal containers for buman and pet food, as well as plastic containers for health and personal care products. It has 33 manufacturing plants in North America, and achieved sales of \$861m last

KKR cash for Russia's Kamaz

Rohlberg Kravis Roberts, the US investment company, provided the first \$150m of a \$3.5bn investment package in Russia's truckmaker Kamaz, Reuter reports from Moscow,

KKR will pay another \$150m in August, allowing the lossmaking company to complete a \$300m stabilisation programme. This should enable Kamaz to produce 50,000 trucks this year and return to profit. In the long term, it plans to raisa ontput to

Way ahead clouded for slimmer Embraer

The aircraft maker's future is still in doubt despite further job cuts, writes Angus Foster

ordon bleu cooking is off the menu et Embraer, the Brazilian aircraft maker, whose once famous restaurant has been contracted out to private cater ers to cut costs. In an equally unpalatable move, the company last week announced it was asking one in three of its workers to take voluntary

Job cuts are nothing new in the depressed aviation industry, and changes at Embraer were expected after Brazil's government sold control of the company to private investors last December. But the scale of the cuts highlighted the trickiness of Embraer's immediate problems, and raised questions about its long-term survival as an independent manufacturer.

Embraer's cuts leave the company with 3,850 employees compared with 12,500 in 1990, the year its troubles started to mount. With commercial and military sales falling and Brazil in deep recession, it was forced to cancel a \$300m development of a new 19-seat regional craft. The debts associated with that project, and high operating costs, left the company with mounting losses which last year reached \$305m.

Mr Juarez Wanderley, a longtime Embraer employee who became president earlier this year, says the smaller workforce reflects "conservative" views of the company's workload in the next three years. He says most jobs lost were in administrative and back-up areas and the company's technological capacity remains intact - a view fiercely disputed by union leader Mr Edmilson de Oliveira.

The cuts will save about \$80m a year and should start to take effect in six mouths.



Meanwhile, Embraer intends to use part of the proceeds from a \$155m rights issue to reduce its \$400m net debt and restructure what is left. "There are no more areas to cut costs at the moment; what is left to be done is perfecting the situation," says Mr Wanderley.

Embraer's perfect outlook remains obscured by two clouds hanging over its immediate future. The first covers relationships among the company'a new shareholders and ment, which have yet to settle down after privat-

A consortium of banks and pension funds now controls the company via a 40 per cent voting stake. The two main partners are Bozano Simonsen, an aggressive Brazilian investment bank, and US investment bank Wasserstein Perella. Analysts suspect Wasserstein is only interested in trading its 19 per cent stake, especially after in 1996, compared with only

reports that it may not subscribe to the rights issue.

Embraer's managemeut, which one former minister says is "at least half responsible" for the company's problems, is virtually unchanged. Critics say it is too interested in aeroplanes and not enough in profit. Mr Wanderley, with the company since its founding by Brazil's air force in 1970, says: "We are engineering minded. It's not true to say we abandoned costs, but it is true that we were not fanatical about the business side."

he second question mark bangs over Embraer's products and their performance in the slowly recovering commercial aircraft market. This year will certainly be better than last. Embraer expects to deliver 19 of its 30-seat, propeller-driven Brasilia aircraft and about 20

eight last year. On the military side, the company has orders for its best-selling Tucano turboprop trainer. The updated Super Tucano is one of six aircraft competing for an order for 712 trainers from the US navy and air force. Production continues on the AFX fighter, a joint vanture with Italy. although the aircraft still has

Mr Wanderley says privatisation will belp Embraer compete. As a state-owned com-pany it had no access to lease financing and had to borrow at high interest rates. It was often unable to compete for small orders because it could not provide funding. "In future we will be on the same basis as our competitors," he says.

no third party orders.

Better financing will belp, but the company's longer term health depends on an aircraft still on the drawing board. The EMB-145, a 50-seat regional jet, begins test flights in August orders for 13 aircraft and options for a further 11, comparatively few for an aircraft

Fifty-seat regional jets are a naw market nicbe and the EMB-145's only jet competitor is the Canadair R.J. Embraer says it has kept development costs low by adapting previous designs. The company hopes its \$14.5m sale price will undercut the Canadians.

Mr Richard Whitaker, editor of Airline Business magazine says both aircraft will let airlines fly low passenger volume, longer routes, bayond the range of the slower turboprops.
"But these aircraft are expensive to acquire and the turboprops are getting faster," be

About two-thirds of the EMB-145's \$300m development costs are borne by Embraer, with the rest shared among Spanish, Chilean and US partners. Mr Wanderley says cost pressures and overcapacity make joint ventures and even cross shareholdings increasingly important. But be doubts Embraer would link up with a US or European manufacturer because they would block our development". Closer ties with countries sucb as Chile or Malaysia are more likely.

If the EMB-145 disappoints, Embraer's future would be seriously in doubt. But Mr Wanderley remains convinced Brazil's love affair with flying is too important to let go, "Brazil uever stopped thinking about planes, maybe because of the size of the country. We decided to master aeroplane technology. The cost is very high, but we are one of the few countries in the world to do

Canadian National Railways to get debt help

By Robert Gibbens in Montreal

The Canadian government is to belp Canadian National Railways reduce its debt by C\$1bn (US\$726m) to C\$1.5bn before privatisation, planned for later

About C\$500m would come from government acquisition of CN commercial property and land and another C\$500m from the sale of other CN assets, includ-

ing its rail overhaul plant in Montreal, to the private sector.

Mr Gordon Lackenbauer, deputy chairman of Nesbitt Burns, leader of the international underwriting syndicate, told a parliamentary committee in Ottawa that all CN's shares could be sold publicly to raise between C\$1.6bn and C\$2bn, as long as interest rates and stock markets were favourable.

Long-term debt must be reduced from

the present C\$2.5bn to retain CN's international bond rating as a private-sector company at a minimum triple B. It is currently double A minus because of

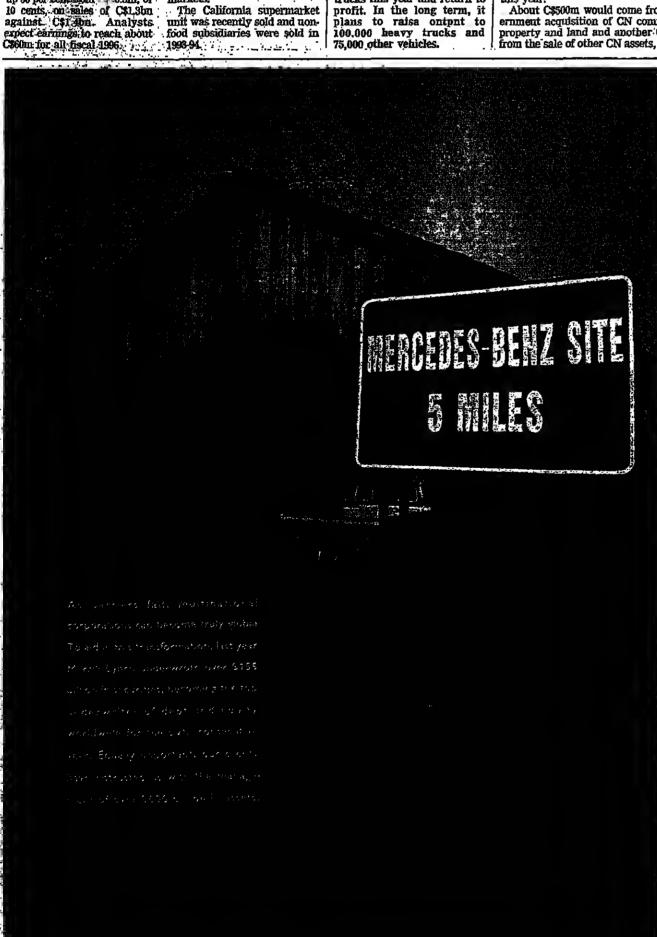
the government's longstanding debt

Part of the proceeds from the share offering, probably divided into three instalments, would be used to repay another C\$200m of debt.

After the share offering the govern-

ment would pocket about C\$1bn. No single holder will be allowed more than 15 per cent of the new CN shares outstanding.

Last autumn, the government rejected a C\$1.4bn offer from rival Canadian Pacific for CN's eastern Canada rail assets. CP argues that the underwriters have over-stated the market value of the CN property to be acquired by the government.



Crossing borders requires little effort. Barriers are another matter entirely.

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Good profit growth for Fortis

In the first quarter of 1995 Fortis again recorded good results. Net profit rose by 11% to ECU 122 million. Total income increased by 7% and the operating result rose by 24%. The growth in the result is largely . attributable to the European insurance companies, the US life operations and the Belgian banking sector.

Capital gains/losses, which generally show considerable fluctuation, are substantially lower in comparison with the first quarter of last year. Exchange rate movements have, on balence, had hardly any effect on Fortis' results in ECUs.

Fortis key figures first quarter 1995

(in EC/J million*)	1995	1994	% increase
Net profit	121.9	109.7	11
Operating result	183.9	148.7	. 24
Total income	4,448.7	4.158.3	7
	31-03-95	31-12-94	
Net equity	4,327.1	4,288.8	,
Balance sheet total	109,510.8	103,497.2	

1 ECU = 0.82 Sterious

Key figures parent companies first quarter 1995

	Fortis A	IG (in BEF1)	Fortis AM	EV (in NLG")
	1995	1994	1995	1994
Earnings per ordinary share	60.1	55.6	1.94	1.82
	31-03-95	31-12-94	31-03-95	31-12-94
Equity per ordinary shara	2,060	2.138	73.49	75.37

1 100 BEF = 2 18 Stening 1 NLG = 0 40 Stering

Fortis confirms its earlier forecast. Barring unforeseen circumstances and sharp fluctuations in exchange and interest rates, it expects a clearly higher net profit for 1995. Fortis' parent companies also confirm their forecasts; they again expect higher earnings per share for the full year 1995.

Fortis: a united force in financial services

Fortis is an international financial group, consisting of a large number of companies in Europe, the United States and Australia Fortis AG and Fortis AMEV are the two parant companies of Fortis. Each parent company has a 50% interest in Fortis.

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If you would like to receive a copy of the annual reports of Fortis and its parent companies, please contact Fortis, Group Communication:

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3584 BA Ulrecht The Netherlands Tel.: 31 (0)30 57 65 49 Fax: 31 (0)30 57 78 38

INTERNATIONAL COMPANIES AND FINANCE

Mr Li sets Hong Kong a puzzle

Simon Holberton looks at why Cheung Kong may have gone offshore

r Li Ka-shing, Hong Kong's leading entrepreneur, normally shuns publicity. But his recent move to place his controlling 34.95 par cent interest in Cheung Kong, his flagship property company, in a Cay-man Islands trust has brought him just the type of attention

Cheung Kong holds 44.96 per cent of Hutchison Whampoa, a divarsified conglomerate that dominates container port operations in southern China, as well as minority interests in a range of other companies, many of them mainland

Always careful to stress his love of China and his belief in Hong Kong's bright future, Mr Li's decision to move control of Cheung Kong offshore just two years before China regains the colony reminded many of the adage that "actions speak louder than words". The irony of him choosing another UK colony was not lost on observers either.

"The knee-jerk reaction is to say that he is under the whip because be's backed the wrong guys in Beijing," says Mr John Mulcahy, managing director of UBS Securities in Hong Kong and a veteran Li watcher. "But on reflection, is it really going to protect him and his offspring? His dominant asset base is in Hong Kong, and if there is upbeaval, merely vesting ownership elsewhere is meaningless, I think he wants to protect his estate from inheritance tax."

The avoidance of inheritance tax was the reason Mr Li gave for setting up the Cayman Islands trust. Pressed on this

point, he quipped that be was probably the last Hong Kong husinessman to so arrange his

trust is explained by those who know him as a reflection of his natural caution in personal matters. A devoted follower of feng shui, a superstition which tries to balance good and evil forces in nature, Mr Li once had a pair of 18th century English cannon placed on the roof of his office building in Central (Hong Kong's business district) to ward off the disharmonious effects created by a building opposite.

Mr Li also avoids change,

believing that the objects around him have brought him luck. He lives in tha same house and wears the same wrist watch that he has worn for years. Only recently was he persuaded to trade in an ancient Mercedes Benz for a Nissan President.

Moreover, like many Chinese of his generation, he does not believe in life insurance. "The psychology of moving owner-ship of his company into a trust is a big step for him," says one observer.

Yet, as Mr Li knows, timing is averything. It could not have been just a coincidence that news of the trust emerged in the week that Mr Lu Ping. China's most senior official concerned with Hong Kong's affairs, was in Hong Kong. Indeed, Mr Li, who advises China on Hong Kong matters, hosted two high-profile dinners for Mr Lu that week.

China ooes not want people like Mr Li to bail oot," notesMr Mulcahy. "He may bave decided to make the trust pub-



Li Ka-shing: his dominant

lic in the week that Mr Lu was bere as a warning.

No one believes that Mr Li is bailing out of Hong Kong. Last month be expressed interest in developing 37,458 sq ft of top quality commercial land at Tamar Basin. This is next to the beadquarters of the UK soon to be Chinese - garrison in Hong Kong.

oreover, there has been speculation in the stock market that Mr Li might be considering a reorganisation of his listed companies, under which Cheung Kong would increase its stake in Hutchison to 50 per

Even though Cheung Kong is Mr Li's top company, the stock market gives it a lower rating it trades on a p/e of around which trades on around 15

Such a reorganisation would allow Cheung Kong to consoli-date Hutchison and in one move transform itself from a property developer to a hong (the local term for a big trading conglomerate) in its own right, with a higher market rating. That is the theory, but realising it does not come cheap: 5 per cent of Hutchison would cost about HK\$7bn

These rumours are given more credence than most because the idea has been mooted by Worldsec, a boutique brokerage which is known to act for Mr Li. If you look at the situation from Mr Li's point of view, what would be best for him would be to secure more of Hutchison's strong recurrant earnings base," says Mr Chin Manwai who is preparing a report on

Cheung Kong and Hutchison. He thinks the best way for Cheung Kong to increase its holding in Hutchison is by either acquiring the shares outright or swapping Cheung Kong equity for Hutchison

Still, others believe Mr Li may choose to raise his stake in Hutchison by a shares-forland swap. Hutchison's land bank is virtually depleted and Cheung Kong could sell some of its land bank to Hutchison.
"At this stage Hutchison is

on the brink of running out of land," says one analyst. "It's got substantial cash flow from its container port and trading businesses so it would be logical for it to beef up the property development arm."

NEWS DIGEST

Advance Bank forecasts strong increase for year

Advance Bank, the Sydney-based regional bank which is acquiring BankSA from the South Australian state government for AS730m, yesterday forecast a profit of AS118m (US\$84.5m) after tax for the year to end-May, writes Nikki Tait in Sydney. The bank posted a A\$101.4m profit in the previous year, and A\$57.8m in the six months to end-November.

The forecast came in a prospectus for the A\$563m seven-for-10 rights issue Advance is making to belp finance the BankSA deal. Shares in Advance have fallen sharply since the deal - which creates a "super-regional" bank, after Australia's "blg four" national banks - was announced on Friday. They closed 13 cents lower at A\$9.22 yesterday.

However, Advance said it believed earnings per share in the 1995-96 year would "not be less" than those achieved in 1994-95, and pre dicted earnings enhancement thereafter. Mr Jim Service, chairman, also denied suggestions that Advance might have overpaid for

Meanwhile, shares in National Australia Bank, the country's biggest, rose 6 cents to A\$11.92 on news that sharebolders of Michigan National have approved NAB's US\$1.5bn offer. Various US regulatory approvals have still to be received, but NAB said it expected the deal to be consummated before the end of 1995.

SAS and Thai Airways in code-sharing move

Scandinavian Airlines System and Thai Airways International yesterday signed a code sharing agreement to link their flight services between Thailand and Scandinavia, co-operate on ground services and jointly market Thailand as a business and tourist destination for Scandinavian travellers, writes Hngh Carnegy in Stockholm.

The deal, which gives SAS its first Asian partner, complements a strategic partnership struck last month between SAS and Lufthansa. The German airline already operates an alliance with Thai Airways.

Between them, SAS and Thai operate 10 non-stop flights a week between Bangkok and Copenhagen and four between Bangkok and Stockholm.

Chrysler takes control of Brazilian distribution

Chrysler, the third biggest carmaker in the US, plans to establish itself as the sole Chrysler distributor in Brazil, AP-DJ reports from

The move follows the dissolution of the rela-tionship between Chrysler and São Jorge Veiculos, its Brazilian distributor. São Jorge Veiculos has represented Chrysler in Brazil since

Chrysler do Brasil, which has its headquar-ters in São Paulo, will oversee the appointment of dealers, provide service and parts support, and co-ordinate marketing activities.

Brazil under the new organisation will be the Vision, Chrysler's full-size passenger car. Chrysler also said it planned to introduce its Caravan minivan, the new Stratus sedan, and pick-up trucks.

Among the first vehicles to be imported into

Pancontinental bid goes unconditional

Renison Goldfields, the Australian mining company in which Hanson of the UK holds a 40 per cent stake, yesterday declared that its bid for Pancontinental Mining, worth around A\$500m (US\$358m), was unconditional, writes

Nikki Tait. Renison said yesterday that it held 52,25 per cent of its target's shares, after passing the 50 per cent mark on Friday. However, it remains unclear whether the hidder will be able to mop up all minority shareholdings; QBE, the Australian insurer which owns more than 10 per cent of Pancon, has indicated it will not accept

Cimpor registers 73% improvement

2,200 Jul 94 1995

Cimpor, Portugal's leading cement pro-ducer, lifted net profits 73 per cent in the first quarter of 1995, to Es4.5bn (\$30.9m) compared with Es2.6bn in the same period last year, writes Peter Wise in Lisbon. Sales rose to Es26.3bn from Es21bn and net assets grew 7.4 per cent to Es180.9bn. The company, which

accounts for about 60

per cent of cement sales in Portugal, attributed the improvement mainly to Portugal's economic growth and the consolidation of companies acquired in 1994. Cash flow rose to Es8.5hn from Es6.7hn and operating profits increased 36.8 per cent to

Cimpor became the largest industrial company to be quoted on the Lisbon stock exchange when 20 per cent of the group was sold in a public offer in July 1994. A further 25 per cent is expected to be privatised in 1996.

Portugal has the highest level of cement consumption in Europe after Austria - 700kg to 800kg a head a year, according to Cimpor. Sales are forecast to grow steadily because Portugal also has a low level of accumulated consumption, as the country has not yet built as much infrastructure as most of its Euro-

Hellenic Technodomiki beats forecasts

Hellenic Technodomiki, a Greek construction group, posted 1994 pre-tax profits of Dr2.4bn (\$10.6m), up 32 per cent on 1993. Turnover jumped 52 per cent to Dr20.1bn, Reuter reports from Athens. Turnover and pre-tax earnings exceeded projections in its IPO prospectus by Dr5bn and Dr224m respectively.

Email lifts after-tax profits to A\$100m

By Nikki Tait in Sydney

Email, which is jostling with Sonthcorp for number one position in Australia's white goods market, yesterday announced after-tax profits of A\$100m (US\$71.6m) in the year to end-March, up from A\$87.8m in the previou

months. Sales in the period rose to A\$2.13bn from A\$1.79bn, while operating profits before tax and interest were up to A\$141.2m from A\$121.4m. Higher interest charges of A\$28m, against A\$19.3m, were largely offset by a lower tax charge of A\$15.9m, compared with A\$23.3m.

Earnings per share rose to 37.4 cents from 34.1 cents on a fully-dilnted basis, and the final dividend is 13.5 cents a share, making 25 cents for the year, up from 24 cents

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Email said all divisions, other than big appliances, showed stronger profits.

The company has been moving its refrigerator manufac turing from South Australia to New South Wales in an effort to cut costs and cope with tougher competition as tariff barriers come down. However. the process has taken longer than expected and, according to Email yesterday, resulted in non-recurring costs of A\$13m. Pre-tax profits from this divi-sion fell to A\$26.3m from A\$40.9m, while sales were A\$591.2m compared with A\$562.9m.

Conversely, the metals dis-tribution side saw profits rise fairly strongly, to A\$41.9m from A\$33.6m; building prod-ucts contributed A\$33.5m compared with A\$28.8m; and the industrial products division made A\$24.8m against

Looking ahead, Mr Peter Cottrell, chairman, said there were "conflicting signs on the direction of the Australian economy". He noted the weaker retail

sales figures and decline in bousing starts, but also the steadying of consumer confi-dence and interest rates. He predicted an increase in

pre-tax earnings, due to new products, export sales and cost-cutting, in 1995-96, but also warned that the tax rate

Barito Pacific Timber returns slide 51%

Barito Pacific Timber, the Indonesian group, has suffered a 51 per cent fall in net profit for the first quarter of 1995, to Rp25.67bn (\$11.5m) compared with the same period last year. It blamed a drop in sales and prices, as well as higher pro-

duction costs, AP-DJ reports

from Jakarta. Excluding sales of Rp3.71bn from non-timber subsidiary Griya Idola Real Estate, net sales fell 32 per cent to Rp186.29bn rupiah.

The company said sales volume fell 29 per cent to 263,452 cubic metres; and the average selling price fell 9.1 per cent to Rp311.72 per cubic metre.

Weakened plywood demand in Barito Pacific Timber's main markets since the second half of 1994 have driven volumes pany said. Management had cut back production in antici-pation of the weakened demand. "This strategy is still effective this year."

Production costs rose to 84 per cent of sales in the first quarter from 70 per cent in the

first quarter of 1994. It blamed the rise on high fixed costs and lower production volume. The company said increased taxes and fees for

reforestation also contributed. The first quarter of 1995 produced a turnround in the downward trend of plywood price. "Having declined for the last three quarters, the price finally made an upsurge in term.

maintained an upward trend."
Barito Pacific Timber said. It
also said there had been a modest pick-up in demand for ply-

With market conditions expected to remain favourable for the remainder of this year. the company sees the trend o plywood prices and demand remaining modestly upward in the coming third quarter before levelling off in the last

rofits AS100m

eting profits hid 41.2m from ASC ter interest chap

diluted basis at dividend is 135

mail lifts fter-tax

Industriförvaltnings AB Kinnevik





MILLICOM INTERNATIONAL CELLULAR S.A.

Comvik International Vietnam ASS

Sincere Gratitude and a Warm Welcome to The Government of the Socialist Republic of Vietnam

H.E. the Prime Minister - Mr Vo Van Kiet and Mme Phan Loung Cam

H.E. the Minister of Foreign Affairs - Mr. Nguyen Manh Cam

H.E. the Minister/Chief of Government Office - Mr. Le Xuan Trinh

H.E. the Minister of Finance - Mr. Ho Te

H.E. the Minister & General Director of DGPT - Mr. Dang Van Than

H.E. the President of the National Center for Social Science and Humanism - Mr. Nguyen Duy Quy

H.E. the Deputy Head of the External Relations Committee under the Central Committee of the Communist Party - Mr. Hoang Thuy Giang

H.E. the Vice Chairman of SPC - Mr. Vo Hong Phuc

H.E. the Vice Chairman of SCCI - Mr. Nguyen Mai

H.E. the Vice Minister of Trade - Mr. Mai Van Dau

H.E. the Vice Minister of Health - Mme. Tran Thi Trung Chien

H.E. the Vice Minister of Science, Technology and Environment - Mr. Chu Tuan Nha

H.E. the Vice Minister of Justice - Mr. Nguyen Van San

H.E. the Vice Minister of Maritime Products - Mr. Ta Qang Ngoc

H.E. the Vice Minister of Labour, War Invalids and Social Affairs - Mr. Trinh To Tam

Dear Excellencies and Distinguished Delegates,

On the occasion of the visit to Scandinavia and Luxembourg from May 29 to June 8, 1995, by His Excellency the Honourable Prime Minister Mr. Vo Van Kiet and Mme Phan Luong Cam, together with the Excellencies and distinguished delegates from Vietnam, we would like to extend a warm welcome on behalf of Kinnevik, MIC and Comvik.

We would also like to extend our sincere gratitude to the Government of the Socialist Republic of Vietnam for awarding our Group in partnership with Vietnam Mobile Telecom Services Company "VMS", the first nationwide cellular operating license in Vietnam.

Today, Vietnam, with a population of 70 million people, is one of the fastest growing economies in the world. The creation of a nationwide GSM cellular telephone system will enhance the telecommunications infrastructure of the country and we believe greatly assist further economic development.

Kinnevik and MIC have significant worldwide experience, building and operating cellular telephone systems. This knowledge will be utilized in ensuring a rapid expansion of the proposed network in Vietnam. Kinnevik is the majority shareholder in Comviq AB, the largest GSM operator in Sweden, as well as, a major shareholder in MIC and Netcom A/S, the Norwegian GSM operator. MIC is a leading international cellular operator with operations in 19 countries, in Latin America, Asia, Europe and Africa, with a combined population of approximately 400 million people.

We look forward to a long and successful partnership with VMS, and once again we would like to express our sincere appreciation and gratitude to the Departments, Ministries and Institutions of the Government of Vietnam, who have been responsible for the award of this license.

Our respects to the People of Vietnam,

Jan H. Stenbeck Chairman Industriförvaltnings AB Kinnevik Millicom International Cellular S.A.

Stig Nordin President & CEO Industriforvaltnings AB Kinnevik Jay W. Metcalfe President & CEO Millicom International Cellular S.A. Håkan Ledin Chairman and Executive Director Comvik International Vietnam AB

M.A. Zaman President & CEO Comvik International Vietnam AB

Anglian Water makes refund

By Christopher Price

Anglian Water said yesterday it would refund customers £6 each this year, angering consumer groups which said the rebate was a drop in the ocean compared with the hefty dividend increase and share buy back programme also announced by the utility.

Anglian is the second privatised water company, after North West Water, to respond to growing pressure over executive pay and profits by announcing a rebate for cus-

Speculation is growing that others will follow suit. Yorkshire Water, which reports its results tomorrow is considered the most likely to make a similar response, while Severn Trent is also thought to be a potential candidate when it announces figures next week.

Other water companies are thought more likely to channel benefits to sbarebolders adding further to pressure on Ofwat, the industry regulator. to take a tougher line on price

Anglian's rebate, which will be credited to customers'

than a token gesture -Anglian's savings and profits should be shared at least equally between

This is no more

accounts in the second half of the year, amounts to just over 2 per cent of the average annual bill of about £280.

customers and

shareholders'

Ms Ruth Evans, director of the National Consumer Council said: "This is no more than a token gesture - Anglian's savings and profits should be shared at least equally between customers and share-

yesterday Anglian announced a 14 per cent increase in its 1994-95 dividend. Mr Robin Gourlay, Anglian chairman, said: "The size of the rebate has been determined by efficiency savings made during the past five years under targets agreed with

Unlike North West, which has pledged to make refunds and special dividends in each of the next five years, Mr Gourlay refused to speculate on how Anglian would spend future savings.

"We will not be tied into a formula as to how we deliver our results," Mr Gourlay said, adding: "we intend to deliver significant real dividend growth over the next five ars." Anglian is also proposing to buy back up to 10 per

The one-off customer rebate will cost Anglian £12m, with the company spending a further £2m on setting up a a trust fund to help customers who have difficulty paying Mr Gourlay said customers

rebate and a 3.8p special divi-

would also benefit from an tection in privatised monopoly industries. The balance between the interests of the extra £8m allocated to issues such as low water pressure and shareholders and directors and cleaning up estuaries. Two weeks ago, North West those of consumers has been Water announced a £6.50

completely lost." See Lex

are price since privatisation ative to the FT-SE-A Water Index

91

dend and pledged dividend

growth of 7 per cent a year in real terms over the next five

years. The total cost of the

package is £180m. Mr Jack Cunningbam

Labour's trade and industry

spokesman, said: "These prof

its once again highlight the

need for greater consumer pro

planned at Emap

By Raymond Snoddy

Emap, the media and exhibitions group, made it clear yesterday that it wanted to expand in commercial radio and would be looking carefully at Metro following the announcement that the Newcastle-based broadcaster's two largest shareholders want to sell their stakes.
"We will be looking at

Metro, together no doubt with many others," said Mr Robin Miller, Emap's chief executive, as he reported a 40 per cent rise in pre-tax profits.

Emap is already the second largest commercial radio operator in the UK after Capital. A relaxation of cross-media ownersbip rules, expected to become law within the next two months, could enable it to nearly double its share.

Commercial radio is, from small base, Emap's fastest growing division. Over the past year operating profit grew from £1m to £5.2m hoosted by the purchase of Trans World Communications.

Expansion Growth returns for 'Big Six' accountants

By Jim Kelly, Accountancy Correspondent

Waterhouse. Price accountancy firm, yesterday offset disappointing fee income results in the UK hy pointing to growth of 60 per cent in

eastern Europe. Mr Ian Brindle, senior partner at PW, said that economic conditions within the UK had been extremely difficult during 1994-5. "Consequently for better growth opportunities we are seconding more and more partners and profes overseas," he said.

"Much of the revenue ated through their efforts benefits PW in continental and eastern Europe," said Mr Brin-dle. The firm showed a decline in fee income in the UK of 0.4

With all the hig firms increasingly involved in global projects the annual fee income table, already discredited because of wide variations in the way the firms compile their results, is looking increasingly obsolete as a tool for meaningful comparison.

Elsewhere growth returned o the rest of the UK's "Rig Six" accountancy firms in 1994-5, in sharp contrast to last year's largely stagnant performance, according to fee income

But the firms' senior partners agreed that the market was still fiercely competitive in terms of price and there was no prospect of a return to the growth of the 1980s. Four out of six saw a reduc-

tion in the number of partners In 1993-4 four of the firms recorded less than 1.5 per cent growth in income. This year only two, Touche Ross and

Price Waterhouse, failed to

reach that target while the rest

recorded growth in excess of 3 Andersen was the only firm to move a place – up from third to second – but the league table did show signs of increasing segmentation. The highest growth rates were

among the biggest firms.

While Coopers & Lybrand put in a creditable 2.7 per cent growth at the top of the table KPMG notched np 6.2 per cent and Andersens 9 per cent -

yet again that there would be the figures were recorded. Mr Peter Smith, senior part-

ner at Coopers & Lybrand, said: "Despite reductions in tition is as fierce as ever and it is going to stay that way. Against this background our

		BIG SIX ACCO				7444	<u> </u>	
Place 196	dag '94		1984-85 income £ m	charge.	No. of .	% charge	Other profit staff	% change
1	1	Coopers & Lybrand	575.0	+27	607	-10.3	6,268	. +0
2	3	Andersen	539.5	+9.0	⁻ 389	+3.4	4,873	+3
3	2	KPMG	528.4	+6.2	573	-8.5	5,998	-2
4	4	Ernst and Young	401.2	+3.3	386	-1.5	4,376	-1
5	5	Price Waterhouse	383.2	-0.4	399	-3.8	3.836	2
6	6	Touche Ross	336.8	+1.2	345	+0.9	4.303	+14

less than their normal double-digit rise - but nonethe-

The lowest growth rates were recorded by the bottom two firms - Price Waterhouse showing a drop of 0.4 per cent while Touche Ross, which last year recorded a drop of 0.8 per cent, recovering slightly with growth of 1.2 per cent.

Growth rates for the firms in the next tier down, the so-called Group A, were varied hnt there was no clear evidence that they are falling away from the Big Six. Grant Thornton, the leading Group A firm, recorded growth of 6.1 per cent, according to prelimi-

The full set of fee income returns from the top 30 firms will be released later this week but early returns show a varied picture - with Robson Rhodes showing fee income growth of nearly 11 per cent while Pannell Kerr Foster

made just 0.5 per cent. Each of the hig firms made a concerted effort yesterday to portray its results as encourresults are a considerable

Mr Colin Sharman, senior partner with KPMG, said: Across the board clients are coming out of the recession and the 20 per cent growth in management consultancy is an indication that healthy growth is returning for professional

Touche Ross mirrored the general buoyancy of fees in the management consultancy and tax sectors - recording growth of 23 per cent and 5 per cent respectively. Mr John Roques, senior partner, pointed to work in outsourcing within the public sector as significant.

Ernst & Young traditionally strong in the tax field. recorded a gain in market share. It also noted a "pick-up" in corporate finance work and the MBO market in particular Mr Nick Land, senior partner pointed to the firm's appointment as administrators to Barings, the UK merchant bank, as a highlight of the firm's performance in corporate recov-

BAA maintains profits growth and investment programme.

	Year to 31 March 1995	Year to 31 March 1994	Change %
Revenue	£1,159m	£1,098m	5.6
Pre-tax profit .	£366m	£322m	13.7
Earnings per share	27.3p	23.5p	16.2
Recommended final dividend	6.375p	5.625p	
Total dividend for the year	10.125p	9.0p	12.5
Net asset value per share base on full open market valuation	ed 1 £5.41	£5.06	6.9
Passengers	87.7m	82.0m	7.1
Note: The comparative figures for earnings per share, the one-for-one capitalisation tissue in July 1994.	dividents and net asse	t relac per share have be	en adjusted for

BAA plc today announced profit before tax of £366 million for the year to 31 March 1995 (1994: £322 million), an increase of 13.7 per cent on the previous year. This performance reflected an increase in passenger numbers of 7.1 per cent to 87.7 million and improving growth in retail income following phased completion of construction work in the terminals. Costs remained under control and productivity in terms of passengers per employee increased by 4.6 per cent.

Dr Brian Smith, Chairman, said: "BAA continues to deliver an annual increase in profits and a growing dividend stream. Our goal remains to become the most successful airport company in the world and I am confident that this goal is within our reach."

Earnings per share increased by 16.2 per cent to 27.3 pence (23.5 pence). The board is recommending a final dividend of 6.375 pence, making a total for the year of 10.125 pence, a rise of 12.5 per cent.

Net asset value per share based on a full external valuation of the company's major operational and property assets increased by 6.9 per cent to £5.41 (£5.06). Additional retail facilities were the main factors in the increased valuation, which is not incorporated in the accounts.

Revenue rose by 5.6 per cent to £1,158.6 million (£1,097.8 million). In spite of the higher growth in passenger numbers, airport charges revenue increased by only 6.6 per cent

	Note	1995	1994	Charge
		<u>Em</u>	វភា	
levenue		1,159	1,098	+5.6%
phensurit costs		(758)	(730)	
Operating profit from continuing operations		401	368	+9.0%
ileTest	1	(35)	(46)	
rolit on ordinary activities before taxation		366	322	+13.7%
Cucrons		(87)	(82)	
Profit for the year		279	240	
Dividends	3	(104]	(92)	
letained profit		175	148	
arnings per share (pence)		27.3p	23.5p	+16.2%
Inidends (net) per share (pence)				
वास्तामा (व्यांची)		3.75p	3.375p	
- 1 1	3	6.375p	5.62Sp	
Fintal (proposed)	,			
foral for the year VOTE: The comparative figures for earnings per share a or-one capitalisation issue approved by shareful NOTES The interest charge is shown not of interest ca. The interest charge is shown not of interest ca. The interest charge is shown not of interest ca. The interest charge is shown not of interest ca. The interest charge is shown not of interest ca. The interest charge is shown not of interest and ca. So there to a retrieval as the Annual General Me.	nd dividends p ders in July 19 pitalised of £4 (1994: 25.6%) aprial allowant	10.125p ser share have been 9.4 million (1994 . The lower efferes resulting from	: £30,4 million curve rate reflect a lugher capital	to taming
ional for the year NOTE: The comparative figures for earnings per share a or-one capitalisation issue approved by shareful NOTES The interest charge is shown not of interest ea- the interest charge is shown not of interest ea- infligence, a range from capitalised interest and e	putained of \$4' (1994; 25.6*) apetal allowance tiers on the recur to 10,125p peet of the fine founded to \$6' of the Group out fixed assets graphicasion 1 be charged to be charged in the control to \$6' of the Group out fixed assets graphicasion 1 be charged to be charged to	10.125p or share have be set, set, set, set, set, set, set, set	en adjusted for curve rate reflect and of 6.375p p of business or re. an increase ref. an increase with 58.3 minutes and 56.3 minutes and 56.3 minutes and of 6.4 fromeens are as account in it	the one- to taming 1 29 June of 12.5%, on) of nullion is or not he year in

to £392.4 million (£368.1 million). It was held back by the regulatory price cap of RPI-4 at the London airports. For 1995-96 and 1996-97, the formula is RPI-1.

Gross revenue from retailing of £513.8 million (£468.0 million) produced a 10 per cent rise in net retail income to £361.9 million (£328.9 million) and a 2.6 per cent rise on a per passenger basis to £4.14 (£4.04), constrained by continuing disruption from building work at most of the company's airports.

Terminals where building work is complete or well-advanced achieved stronger income growth per passenger - up 5.8 per cent in Heathrow Terminal 3, which was completed in June 1994. Two years after completion, Heathrow Terminal 4 grew retail income per passenger by a further 5.1 per cent, after good growth in the first full year. At Gatwick North Terminal, where building work finished in December 1994, retail income per passenger grew by 6.0 per cent in the fourth quarter. At Gatwick South Terminal, both phases of construction were isolated and retail income per passenger grew by 7.3 per cent.

Revenue from BAA's airport property portfolio rose by 7.2 per cent to £162.5 million (£151.6 million). Lynton achieved an increase in operating profit of 34.9 per cent to \$21.6 million (£16.0 million).

The acceleration of capital expenditure to £440 million (£289 million) was funded from each flow and an increase in borrowings to £947.9 million (£814.8 million). The inquiry into the application for a fifth terminal at Heathrow, which will be our largest project ever, started in May 1995. Gearing increased to 32.8 per cent from 29.1 per cent and interest cover remained unchanged at 4.8.

Sir John Egan, Chief Executive, said: "A record number of passengers have travelled through the company's airports which have continued to achieve high scores for

We are investing heavily to create Britain's 21st century airports. The first stage of our three year £1.4 billion investment programme is already producing results including the Flight Connections Centre at Heathrow, extensions to both Gatwick terminals, the international pier complex at Glasgow, and virtually a whole new airport at Southampton.

Our strategy for developing the retail business is also delivering results. We are increasing retail floorspace, adding another 75,000 sq ft in the year, widening choice, and offering outstanding value for money. The first BAA McArthur/Glen outlet centre for designer and brand name goods, Cheshire Oaks, opened in April 1995, and early indications are that it will exceed its targets.

This year has seen strong traffic growth. We look forward with confidence to the coming year and expect traffic growth of between 5 and 6 per cent."

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 1995

	1995 - Em	1994 San
Fored streets	4,099	3,604
Net current liabilities	(491)	(238)
Total assets less current habilities	3,608	3,366
Creditors: Amounts due after one year	(763)	(823)
Share capital and reserves	2,845	2,543
Net asset value per share	52.77	<u>12</u> 40

The net asset value per share based on an external valuation of the Group's major operational and property assets as at 31 March 1995 was \$5.41 (1994; \$5.06) an ancrease of 6.9% (See note 5).

CONSOLIDATED CASH FLOW STATEMENT

	1995 Lm	Tur lead
Operating activities	439	474
Returns on investments and servicing of finance	(178)	(161)
Tax paid	(80)	(70)
Investing activities	(381)	(236)
	(200)	7
Financing	(136)	22
Decrease in cash and cash equivalents	(64)	(15)

TAKING OFF FOR THE 21st CENTURY Heathrow & Gatwick & Stansted & Glasgow & Edinburgh & Aberdeen & Southampton

Shareholders in Metro Radio announce stake sale

By Motoko Rich and Christopher Price

Metro Radio, the Newcastlebased commercial radio operator, yesterday said its two largest sharebolders, Capital Radio and Chrysalis Group, were selling their stakes.

Following the move, Emap, the media group, said it was interested in Metro. Capital owns 18.1 per cent of Metro and Chrysalis owns 19.5 per cent. Mr John Josephs, managing director of Metro, said the company would prefer

to as wide a range of institutions as possible.

Speculation had been mounting that the northeastern

the 37.6 per cent holding to go

Radio - following the UK government's announcement of cross-media ownership proposals in May. The proposals would allow a company to own up to 35 radio licences, rather an the current 20.

Mr Robin Miller, chief executive of Emap, said: "Plainly we are interested in Metro Radio and we are obliged to look at

Mr Patrick Taylor, finance director of Capital, said the group was withdrawing from Metro because "we really like

to be invested in companies where we are going to have a significant involvement in that business and we do not see

group would become the sec- that opportunity with Metro". ond hid target - after Chiltern Under government regulations, Capital cannot mount a bid for

At yesterday's closing price of 478p, Capital would make £15.2m in cash. Capital bought its stake in 1988 for £2.5m. Like Capital, Chrysalis said

because it did not have management input at Metro. Mr Richard Huntingford, chief executive of Chrysalis Radio, said the company wanted to concentrate on expanding our fully-owned and operated interests, as opposed to minority

Capital is being advised by SG Warburg and Chrysalis is advised by NM Rothschild.

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If you:

The Morgan Stanley Japanese Warrant Fund N.V. John B. Gorsiraweg 6, Willemstad Curação, Netherlands Antilles (the "Office")

NOTICE AND PROXY STATEMENT OF A SPECIAL GENERAL MEETING OF SHAREHOLDERS (the "General Meeting") to be held on June 28, 1995

at 10.00 am Netherlands Antilles time at the Office

This notice is furnished to all holders (the "Shareholders") of shares (the "Shares") in the share capital of The Morgan Stanley Japanese Warrant Fund N.V. (the "Corporation"), by MeesPierson Trust (Curaçao) N.V., a Netherlands Antilies limited liability company with its corporate seat in Curaçao, Netherlands Antilies, in its capacity as managing director of the Corporation (the "Managing Director").

The proposal to de-list the Shares from the International Stock Exchange of the United Kingdom and the Republic of Ireland, on the condition precedent of adoption of the resolution to dissolve and liquiding the Corporation as set forth hereunder as per the date of dissolution of the Corporation.

The proposal to disserve ("ontbinden") the Corporation as per June 28, 1995 with liquidation ("verefliening") to begin as soon thereafter as practicable in accordance with Article 26 of the articles of incorporation of the Corporation (the "Articles of Incorporation") and Netherlands Antilles law, and to authorise the liquidation of the Corporation to make distributions to the Shareholders of the Corporation in accordance with Article 29 of the Articles of Incorporation in advence of formal liquidation.

The proposal to appoint Yvornante Corporation N.V., a limited liability corporation organised under the laws of the Netherlands Antilias, an affiliate of the Managing Director, as liquidator of the Corporation (Yvornante) and for that purpose to instruct Yvornante:

to file or cause to be filed any notices required to be filed or published in connection with the liquidation; to perform all acts and things and to execute all instruments, deeds, and forms of transfer necessary or desirable in connection with the dissolution and liquidation of the Corporation, in particular to perform the

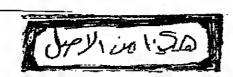
d. to make distributions to the Shareholders in accordance with Article 29 of the Articles of Incorporation in the manner as set forth at paragraph 3 above in advence of the finalisation of the formal liquidation; the proposal to appoint Yvomante as holder of the books and records of the Corporation (in such capacity the "Holder of the Books"); to indemnify Yvomente against all judgments, tines, amounts peid, settlement and attorney's fees, incurred by the Corporation as a result of the liquidation of the Corporation, unless it shall have been finally determined that such costs were the result of the willful malfeesance, bad faith or gross negligence on the part of

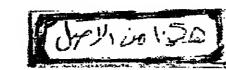
to authorise the Managing Director, the beard of supervisory directors (the "Supervisory Board", consisting of "Supervisory Otrectors") and each Supervisory Director and/or any of the Corporation's duly authorised representatives to take any and all actions he deems instrumental, necessary or conductive, to carry out the

intents and purposes of the foregoing resolutions; to approve, authorise and, to the eldent necessary ratify any and all acts of, and therefore fully disc Managing Director and the Supervisory Board and/or any of the Corporation's duly authorised represents and including the day of the General Meeting.

This Notice is accompanied by a letter to the Shareholders and a form of a proxy (the "Proxy") each Shareholder who wishes to be represented at the General Meeting by a proxy holder.

Holders of Shares in bearer form (the "Bearer Shares", together with the Registered Shares the "Shares") may obtain the Notice and the Proxy at the Office as Indicated in the notice regarding the calling and convening of the General Meeting as published in a newspaper with circulation in the Netherlands Antities and in The Financial Times or another newspaper with circulation in the United Kingdom. The notice regarding the calling and convening of the General Meeting shall be published on or about the date hereof. The Morgan Stanley Japanese Warrent Fund N.V. by: MeesPierson Trust (Curação) N.V., Managing Director





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JESDAY JUNE

FINANCIAL TIMES TUESDAY JUNE 6 1995

THE BUYOUT

SPECIALISTS?

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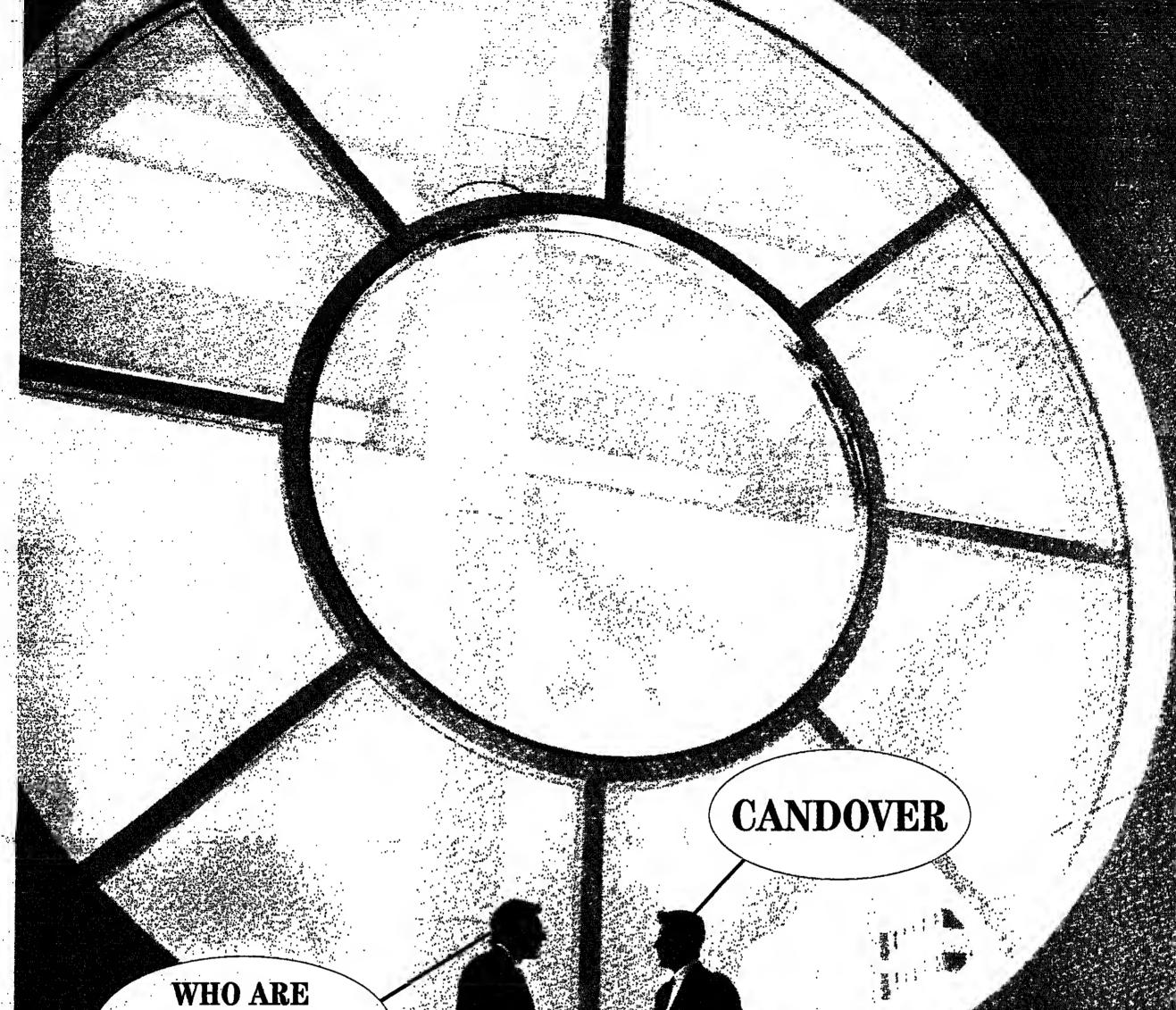
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Candover is one of the leading buyout firms in the UK with the resources to lead deals from \$5m to \$500m.

We have organised deals worth an aggregate value of almost \$2 billion, many of which have gone on to be successful listed companies including Fairey Group plc, Hays plc, Caradon plc and Kenwood Appliances plc.

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ISSUED BY CANDOVER PARTNERS LIMITED, 20 OLD BAILEY, LONDON EC4M 7LN, A MEMBER OF IMRO.

Leisure Industries

Ladbroke, the hotels and betting group, has reduced its property portfolio by one fifth with the sale of the Bay Colony Corporate Center in Boston. Massachusetts, for \$163m.

The 829,000 sq ft development of three large office buildings, which Ladbroke acquired in 1988, was sold to The Shorenstein Company, a real estate group based in Cal-

Mr Peter George, chief executive of Ladbroke, said: "This major transaction, which represents around one fifth of our remaining portfolio, continues our programme of selling down our property interests. We have achieved a record price for this type of property in the Boston area, which bodes well for our efforts to dispose of

other US properties."

Ladbroke, once one of the largest commercial property developers in the UK with more than £1bn invested, hopes to leave the property market by the end of 1996. It had £518.6m (\$814.2m) of property assets on its balance sheet at the end of 1994, divided roughly equally between the US and the UK. The Bay Col-



Peter George: a record price for this type of property in the area

ony Corporate Center, which has been on the market for almost a year, was the largest single property in the portfolio with net rental income last

year of \$8.6m. The company has been paid \$40m in cash. A further \$75m is due by December 22 and the balance will be received by December 29 1998. The deferred payments are represented by promissory notes and secured by a mortgage on the property. Ladbroke said the \$163m, which equates to book value at the end of December 1994, will be used to reduce group debt of

£1.1bn. Gearing will come

down from 57 per cent by a few percentage points.

The company's share price has been affected by a number of developments in its two main divisions. In the UK, competition from the National Lottery has reduced turnover at Vernons, its pools division while the Lottery's scratchcard game has caused betting turnover to decline.

Mr Charles Maso BZW, said Ladbrok valued but sentir change if Ladbroke trols Hilton hotels US, managed to lin

German deal lifts Critchley

A strong performance from last year's German acquisition helped Critchley Group, the electrical cable accessories manufacturer, to lift profits by almost half.

Pre-tax profits for the year to the end of March incre from £3.85m to £5.61m. Sales iumned from £28.8m to £36.4m, including £4.55m from Idento, the German acquisition, and CCA, a UK distributor also acquired last year.

Mr Ian McCalinm, chief executive, said that Idento had performed better than expected, and had been well integrated over the last 91/2 months of the year. It had increased sales by 21 per cent in "a pretty buoyant German market.

Sales of wire markers, the core product, had increased by 83 per cent, Mr McCallum said. The growth was helped both by Idento and by the

Electrocomponents pleases City with 18% rise to £86m

Shares in Electrocomponents rose yesterday after the distrib-utor of electronic, electrical and mechanical components reported an 18 per cent increase in pre-tax profits from £72.7m to £86.1m (\$135.2m) for

the year to March 31. The results were better than analysts had expected, and the shares gained 32p, or 5.5 per cent, to close at 619p. Mr Roy CotterIII. chairman,

said: "Our strategy of increasing the service to our custom ers, both in terms of range and geography, has prospered." Mr Cotterill said the new financial year had begun well,

with sales growth "evident in operations". Turnover rose 19 per cent to

RESULTS

£472.6m (£396.5m) spurred by strong sales growth in both its home and overseas markets. Operating profits also increased 19 per cent to 983.3m. against £69.9m. The group's main UK busi-

ness, RS Components, saw sales increase by 14 per cent to £320.2m. The growth was driven by an expanded product range - which increased from 44,500 to 52,300 - and new services, including a popular range of CD-Rom catalogues, which helped win new customers. Net margins fell slightly because of higher marketing

Sales at RS International grew by 43 per cent to £114.6m, the first time non-UK turnover had broken £100m. Electrocomponents said its German operation had emerged from its start-up phase into profitabil-ity, and that it expected the Italian unit to follow suit this

Pact International, the group's small packaged electrical, audio and DIY accessories distributor which has struggled recently, reported a modest increase in sales to £37.8m and its first operating profit in

Earnings per share rose to 27.4p (22.9p) and a final divided of 8p is recommended, making a total of 11.25p (9.5p) for the

Analysts said the company had made something of a habit of pleasantly surprising the City with its results and yes-terday was no exception. The surprise this time was the strength of domestic sales and the 8 per cent expansion in the

Whether this growth can be sustained as the economy decelerates remains to be seen. but the group has already begun to insure against a slowdown in its domestic market by building up its overseas dis-tribution businesses. The prospects in Europe look good, while south east Asia remains

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AN KETAL EXCHANGE

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relatively undeveloped but still potentially exciting, territory. The forecast profits this year of about £98m translates mito a prospective multiple of almost 21. This means that all the good news and expectations for future growth have already been priced into the shares which are currently trading at a 40 per cent premium to the market. Consequently, there appears to be little room for

							M	Ali	nc I	TC	"in the lan	g run be	belnful
										NEWS	DIGEST		
ne US.	per cent to 15.5 per cent.	Dividends shown net. Figures in brackets are	for corre	spanding perlo	d. †On	increased capita	i. §usm	stock.	After exception	onal charge.	After exceptional	दारखीं,	
link up with	improved from just under 13	Wyodeham Press Yr to Mar 31	26	(13.5)	3.53	(1.76)	11	(7.1)	2.35	Aug 16	1.5	3.75	2.25
s outside the	Group operating margins	Radstone Tech	29.2	(28.3)	2.27	(1.45)	9.25	(5.7)	2.475	Sept 4	mil .	3.3	n.
e. which con-	ket under the Idento brand.	Faber Prest 6 mins to Mar 31	45.4 9.8	(35.7) (6.9)	3.44 2.43	(2.83) (0.93)	15.52 20.2	(13.68)	, ,	July 21 Aug 1	5.5	10	15.5
iment could	ucing HSI to the German mar-	Emap Yr to Apr 1	547.1	(382.4)	63.9		22.2	(16.6)	7.25†	Aug 11	6.4 5.5	9.75	8.65 15.5
ke was fully	sleeves. The group was introd-	Electrocomponents	472.6	(396.5)	86.1	(72.7)	27.4	(22.9)	8	Aug 14	7.	11.25	2.5
on, analyst at	prints heat-shrinkable marker	Critchley Yr to Mar 31	36.4	(28.9)	5.61	(3.85)	28.5	(22.4)	6.25	Aug 3	5.5	9.25	. 8.1
•	based marking system, which	Beverley14mths to Feb 28			3.02L¥	(2.67L)	8.64L	(7.63L)					
Dermit con n	Storb o new The company	BAA TI ID MAY 31	1.139	(1,000)	300	[36Z]	21.3	احتعا	0.3/3	AUG 10	0.020	14.120	. 3

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TENAGA NASIONAL BERHAD (Incorporated in Malaysia)

ANNOUNCEMENT OF INTERIM FINANCIAL RESULTS OF TENAGA NASIONAL BERHAD

FIRST HALF FINANCIAL YEAR 1995

The Board of Directors are pleased to announce the following:

UNAUDITED RESULTS OF THE GROUP AND COMPANY FOR THE SIX MONTHS ENDED 28 FEBRUARY 1995 (Amount in RM million unless otherwise stated)

Титпочег	3,292	2,670	3,264	2,665
Investment and other income	31	42	30	42
Operating profit [note i]	993	1,021	996	1,022
Foreign exchange gain/(loss)(note iij	(57)	(234)	(57)	(234)
Profit before texation [note iii]	936	787	939	788
Taxation	(140)	(137)	(140)	(137)
Profit after togetion	796	650	799	651
Minority Interests		<u>.</u>		
Profit attributable to shareholders	796	650	799	651
Notes:				
[i] Operating profit is stated after charging / (crediting):-				
-Depreciation of fixed assets -Interest on borrowing	387 157	330 123	386 157	329 123
[ii] Foreign exchange transactions comprise:				
·Transaction gain/(loss) -Translation gain/(loss)	(2) (55)	15 (249)	(2) (55)	15 (248)
Geim / (Loss)	(57)	(234)	(57)	(234)
Profit before twestion as a percentage of turnover	28 %	29 %		
1 FACULTICS DED GUARD				

22 sen

Earnings per share is calculated by dividing the profit after taxation and minority interests by the weighted average number of shares in issue during the year of 3,036.3 million (1994: 3,007.4 million),

During the six months the Company's issued and paid-up capital was increased from RM3,034,622,000 to RM3,039,863,000 by the issue of 5,241,000 ordinary shares of RM1.00 each at an issue price of RM8.34 per ordinary are pursuant to the exercise of options under the Company's Employee Share Option Scho

In the opinion of the Directors, the profit before texation of the Group and of the Company for the half year ended 28 February, 1995 have not been substantially affected by any item, transaction or event of a material and unusual

During the first six months ended 28 February 1995, the operating profit for the Group and the Company has decreased marginally as compared to the first six months ended 28 February 1994 mainly due to the cost of electricity purchased from the Independent Power Producers and the escalation in the fuel oil price. For the period ending 28 February 1995, the Group and the Company has a foreign exchange loss amounting to RM57 million, of which ed translation loss due to the weakening of the Ringgit against the Japanese Yen and the Pound Sterling. There has been no item, transaction or event of a material and unusual nature which has arisen since 28 February 1995 and on the date of this announcement which would substantially affect the results of the Group and of

The taxation charge comprises income tax on profits for the period.

The illirectors are of the opinion that the operating profit in the second half of the year may be maintained provided the uncertainty relating to the tariff can be resolved.

The Directors have declared an interim dividend of 5 sen gross per share less income tax at 30% which will be paid on 17 July 1995 to shareholders on the Company's Register of Members on 22 June 1995 (1994 : 5 sen gross per share less income tax at 32%). Tury completed transfers received by the Company's Register (Tenega Nasional Berhad, Level One, Generation Building, 129 Jalen Bangsar, 59200 Kuala Lumpur) up to 5.00 p.m. on 22 June 1995 will be registered before entitlement to the dividends is determined. The Register of Members will be closed from 23 June 1995 to 27 June 1995 both data inclusive.

By Order of the Board

Currency Exchange Rates on May 25, 1995

Monns US lawsuit is settled

Molins, the precision engineering group, has settled a patent infringement lawsuit in the US after a fruitless nineyear legal battle.

The settlement follows the decision by the US Court of Appeal three months ago to iphold an earlier court ruling that the group's patents on its computer-aided manufacturing systems were unenforceable.

Under the terms Molins has agreed to pay part of the attor-neys' fees of the two US companies which were defendants in the case, plus other legal costs. The company would not disclose the amount of money it would have to pay out, but said the costs and the repay ments of any licence fees it had collected for the patents over the years were adequately covered by provisions set aside in 1992 and 1993.

Molins also said it would continue to vigorously contest a separate lawsuit brought by Caterpillar, the US earth-moving compment manufacturer. which is claiming damages and fees over patent infringement.

Radstone warning

Shares in Radstone Technology, the supplier of open architecture computer subsystems to the industrial and defence sectors, fell 21p to 106p yesterday after the company announced a 57 per cent rise in pre-tax profits from £1.45m to \$2.27m (\$3.56m) for the year to March 31.

US defence purchasing would

our competitive position" Glencar cuts loss

Glencar Explorations, the Dublin-listed mineral exploration company, cnt pre-tax losses from I£490,200 to I£207,800 in

Exceptional charges amounting to I£128,400 related to provision for loss on disposal of shares in Andaman Resources and a write-down on the remaining shares held in the company. This compared with a I£419,900 exceptional last time. Losses per share were 0.6p (1.9p).

The company intends to increase its interest in the Wassa gold project in Ghana.

Rutland disposal

Rutland Trust, the financial and business services group, 2.4 z has exercised the put option in respect of its remaining 49 per cent interest in Benjamin Shaw (Pontefract), the West Yorkshire-based canning business. It received £4.25m from Cott (UK), a subsidiary of Cott Corporation of Canada.

Rutland has already received repayment at par of £1.75m BSP loan stock. The payments represent final settlement by Cott of its obligations to acquire Rutland's remaining interests in BSP.

Mr Rhys Williams, chairman, said that because of uncertainties in the US military markets, directors remain cautious with respect to the current vear. "for which we expect to see an overall decline in sales and profits". The big change in

Gt West Resources On lower revenues from coal

and oil and gas, interim pre-tax losses at Great Western Resources increased from \$4.08m to \$7.42m. Losses per share were 6 cents (4 cents).

The Texas-based, Londonlisted group is phasing down its coal division.

During the period its first well in its Peru activity was found not to have commercial quantities. However, the company was confident that the block had the potential to increase shareholder value.

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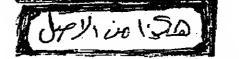
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By Kenneth Gooding, Mining Correspondent

Anglo American Corporation

of South Africa is stepping up its initiatives to save Zambia's

copper industry.
What we have in mind is an

international consortium, with

Anglo in the lead, that would

huy] shares in Zambia Consolidated Copper Mines as the

Zambian government reduces

iis 60 per cent stake," says Mr Julian: Ogilvie Thompson,

Anglo's chairman. But there is not enough

information available about

what the consortium should

offer and on what terms, he

suggests. We have not had access to the information we

need) to arrive at the answer of

how much we should pay."
So Anglo and the Zambian

government have agreed that

here should be a major "due

diligence" investigation of

ZZCM, which is 60 per cent

owned by the government and

By Kenneth Gooding

The provincial government of

Newfoundland and Labrador in

Canada is determined that a

substantial part of value of the

Voisey Bay nickel project,

hailed as North-America's big-

gest base metals discovery for

30 years, will be generated

It already is investigating

Analysts suggest that this

would make sense but it would

require capital investment of

at least US\$1bm and make it

more likely that one of the world's big nickel producers would be invited to take a

staka in the Voisey Bay

project, which is wholly owned

by Diamond Fields Resources,

BASE METALS

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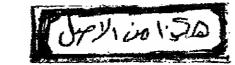
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the viability of a nickel smelting and refining complex in the



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PRECIOUS METALS

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27 per cent owned by Anglo via Zambia Consolidated Investments (ZCI). This would include an examination of the potential viabil-

ity of the Konkola Deep project which is expected to provide a substantial part of ZCCM'a future copper output. The company contributes 90 per cent of Zambia's foreign earnings but has been system-

Anglo prepares rescue plan

atically starved of investment. is hurdened with relatively high production costs and US\$640m of foreign debt. Since nationalisation its copper output has dropped from a peak of nearly 700,000 tonnes in 1969 to less than 400,000 tomes. Output is likely to halve again unless Konkola can be brought quickly into production.

Mr Ogilvie Thompson says it is in Zambia's interest for ZCCM to be privatised as quickly as possible. While it is in the Zambian government's interest to keep a stake in the company – "it should not be 50

Newfoundland hopes for nickel

The Newfoundland govern-

ment's hopes for a provincial

bonanza from Voisey Bay

emerged yesterday after a

"road show" about the project.

organised in London by

Canadian stockbroker Yorkton

Securities, which attracted an

attendance of more than 200

people. Yorkton revealed that in the

past six weeks it had raised

more than C\$50m for seven

small exploration companies

Mr Roger Morton, professor

He compared the Nain area

thet had staked land near Dia-

of economic geology at the University of Alberta, explained

of Labrador, where the discov-

ery was made, with Sudbury in

Canada, which has 38 deposits

mond Fields' land.

bonanza from Voisey Bay

exploration company.

for Zambian copper group Anglo has first right of refusal if the government sells

down to below 50 per cent. "We want more than ZCI's 27 per cent but not more than 50 per cent. That would be unwise politically and from an industrial relations point of view," says Mr Ogilvie Thompson. He hopes the "due diligence" process will begin shortly, after terms of reference have been decided.

ZCCM will need about \$600m to develop Konkola and the company asked Nikko Securities of Japan to help raise the required funds, without success so far, possibly because of ZCCM's existing huge debt. A bigger stake in a revived ZCCM would fit well with Anglo's aim to move from being the world's fifth largest copper producer to one of the top three positions. The group

is investing heavily in new

copper projects in Latin Amer-

tonnes of ore. Ha pointed out

that the Nain area was seven

wonder whether to succumb to the urgings of insecticide manufacturers and kill them with sprays, or leave ladybirds to

growers would admit, if would provide supply security

times the size of Sudbury and was also likely to become a nickel "province" supporting many mines. Diamond Fields might have

some of the deposits on its land but "I can guarantee there will be at least one outside the Diamond Fields' area", insisted Mr Ha suggested that Voisey Bay's nickel production costs would be about 50 US cents a

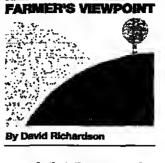
pound (\$1,102 a tonne, one-seventh of the current London Metal Exchange price). In reality, however, tha effective costs would be zero because they would be covered by revenne from copper and cobalt byproducts. From what was known so far Voisey Bay contained at least 60m tonnes of nickel worth US\$32bn net.

European Union faces grain policy dilemma

Looming world supply tightness is already complicating the acreage set-aside issue

ars of autumn sown wheat are peeping from their sheaths of green leaves - or in farming parlance, "coming ont of the boot". As always, in early June, crops are changing from what, to the uninitiated, might have looked like lush grass a few weeks ago, to their maturer habit in which each straw is crowned by the unmis-takeable spiked seed head that characterises the UK'a staple cereal. As those ears sway gently in the breeze it looks likely that most farmers will harvest at least an average yield come August.

Soma, of course, could do with more rain. In spite of the showers at the weekend it has been a drier spring than usual and wheat is at the peak of its water requirement, Many crops carry predators such as grain aphids, which, if numbers rise, can seriously deplete both yield and quality. Others are becoming infested with the dreaded and potentially damaging orange blossom midge. This is an insect wheat grow-ers only became conscious of a few years ago, but which now causes them much aggravation and heart searching as they



pressed, that they are moderately happy with their situa-tion, not least because eight devaluations of sterling since the turn of the year have each, through the operation of the European Community's currency system, added a little more to the residual guaranteed price for their commodity. And this has been enhanced further by a lively demand, both on the spot and forward markets, which has exceeded expectations - a reflection of a tightening world

supply/demand situation. But here in the EU there is little prospect of a shortage. The latest projection of this year's probable EU cereal yield by Copa, the European farmars' organisation, suggests a total, including mainly wheat, barley, oats and maize, of 177m tonnes. Given normal EU eat them free of charge. domestic consumption of about Even so, most UK wheat 145m tonnes a year that clearly

plus a margin for export. Under the terms of the General Agreement on Tariffs and Trade settlement the commnnity will be permitted to sell about 25m tonnes abroad. So, although there may be a little more than that next harvest the over-supply is unlikely to Indeed, statistics like those

above are causing EU officials to hesitate as they ponder the level at which to fix community set-aside for 1996. This year the standard for rota-tional set-aside is 12 per cent of eligible cropping. This is e 15 per cent reduction from last autumn because shorter world supplies were already beginning to be recognised. Some member states are now press-ing the commission to cut the idled land still further for 1996 to less than 10 per cent. For although the EU may be well supplied with grain some areas of the world are slipping towards a critical position.

A few days ago the International Wheat Council announced that on the basis of its preliminary forecasts "world stocks [of wheat this year] would be the lowest since 1977-78". And for coarse grains (chiefly maize and barley) the IWC said "on present assump-tions the supply/demand position. . . could be the tightest since the mid-"70s". The UN Food and Agricul-

Meanwhile, in the US, which

gic reserve.

predicting such a scenario for some months. As long ago as March it issued a "Food Outthe year is not going well for farmers. Winter sown crops of look" report that spoke of "perwheat were damaged over a sisting acute food insecurity in wide area of the sonthern several countries". Thosa states by late spring frosts; and since then planting of both wheat and maize further north included, in particular, parts of Africa and the former Soviet Union. Moreover FAO forecast has been severely delayed by a carryover stock of cereals as heavy rain. Last week one pundit estia percentage of world con-

sumption for this year of only 17 per cent, a reduction of 4 per mated that e little over half the planned acraage had been cent in just two years and a planted acrosa the Midwest compared with 90 per cent by the same date last year and an Needless to say the EU "grain mountain" has been 81 per cent five year average. Expectations for the harvest have already been reduced and reduced significantly as a result of this cut in world in responsa wheat prices at stocks. Eight or nine years ago, main US markets increased on the week by about 20 cents a bushel and maize by about 5 cents a bushel. The European Commission and the council of vention stores. Today many of agriculture ministers therefore of the end of May the total was face a dilemma. Should they, on the basis of the relatively said to be 9.5m tonnes, most of secure EU domestic position, which was in Germany, and of hold or even increase set-aside levels, to avoid overproduction fore, Europe's total stock of in Europe and keep below the Gatt ceiling? Or should they In Britain, at the end of cut the requirement to idle land on the assumption that there will be a lively demand for EU grain from the rest of

Whatever they do decide, may I make a plea that they do it soon. If they leave it until late November, as they did last year, it will again be almost ture Organisation has been is still regarded as the grain too late for farmer to respond.

UN agency sees world stocks dropping below danger level

Harvest shortfalls and growing demand will push global food stocka below the minimum necessary to maintain world food security, Mr Jacques Diouf, director general of the UN's Food and Agriculture Organisation, warned yester-

Speaking at the opening session of the FAO council meeting in Rome. Mr Diouf said that falling world cereal output would not meet rising consumption levels in 1995-96, forcing a further drain on stocks.

In particular, he stressed the precarious balance of supply and demand in sonthern Africa, suggesting that a reneat of this year'a drought in the region could result in a food crisis.

The substantial fall in output forecast this year is expected to be covered by large stocks held by the region's traditional grain-exporting countries, South Africa and Zimbabwe However, at the end of the current year, the area's cereal stocks will be virtually depleted. "A poor 1996 harvest could spell disaster for millions

of people in southern Africa,"

Worldwide, FAO forecasts world cereal production in 1995 at 1.933bn tonnes, a 1 per cent decline on last year. Such output levels will not be be sufficient to meet demand, further draining carryover stocks to about 270m tonnes at the end of the 1996 crop year.

Based on this forecast, aggregate world cereal stocks at tha end of 1995-96 could approach 15 per cent of trend utilisation in 1996-97, "substantially below the range of 17-18 per cent FAO considers the minimum neces-

LONDON TRADED OPTIONS

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prompt delivery CIF (tonne \$200-202 \$159-160 \$94-96 \$191-193

LONDON SPOT MARKETS

E CRUDE OIL FOB (per barrel/Jul)

E OIL PRODUCTS NV

Gold (per tray az)‡ Silver (per tray az)‡ Platinum (per tray az.) Palladium (per tray az.)

Copper (US prod.) Lead (US prod.)

Tin (New York)

Cattle (live weight)†
Sheep (live weight)†

Pigs (live weight):

Lon. day sugar (raw Lon. day sugar (wto

Tate & Lyle export

Rubber (Juli♥

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Rubber (Aug)* Rubber (KLRSS No1)

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FEHTO M

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sary to safeguard world food · security", Mr Diouf said. Any unforeseen changes to production or demand in such a tight marketplace could push up prices.

level which would be "below

at the peak of community over-

production of grain, well over 30m tonnes was held in inter-

those stores are empty and as

which 1.7m tonnes has now

been sold. Effectively, there-

April, there was no bread-mak-

ing wheat, just 22 tonnes (less

than a lorry load) of feed wheat

and 483,000 tonnes of barley

held in intervention stores

Indeed it might be regarded as

scarcely sufficient for a strate-

grain is just 7.8m tonnes.

minimum safety levels".

'If crop conditions deteriorated in major regions or any significant additional demand materialise this year beyond that already anticipated, further price increases would be triggered," he said.

Mr Diouf suggested that would have serious implications for low-income countries with food deficits, especially considering the global fall in

the availability of food aid An FAO report prepared for the meeting of the council, which governs the UN agency between biennial meetings of the FAO conference, shows thet 9.8m tonnes is likely to be provided in total food aid in cereals for 1994-95, the lowest level in more than a decade and down 26 per cent from the 13.3m tonnes delivered in

Earlier this year, the US halved its annual grain commitment to countries with traditional or emergency food

1993-94.

a relatively small Canadian containing between them 1hn COMMODITIES PRICES JOTTER PAD GRAINS AND OIL SEEDS SOFTS MEAT AND LIVESTOCK Precious Metals continued E GOLD COMEX (100 Troy oz.; LIVE CATTLE CME (40,000tbs; cents/lbs LONDON METAL EXCHANGE Sett Day's price change High 385.4 +0.7 385.4 387.7 +0.7 387.8 390.8 +0.7 380.4 394.0 +0.6 394.1 396.0 +0.6 394.1 (Prices from Amelgamented Metal Trading) ### ALUMINGUM, 69.7 PURITY (\$ per torne) Sett Day's price clampe High Low price change 1890 Lum m. 83200 +0.850 83.850 62.550 16.833 8.354 62.700 +0.250 82.750 81.700 19.711 6.776 63.775 81.850 83.250 13.307 1.885 63.775 81.850 83.875 83.250 13.307 1.885 63.775 84.600 84.000 5.387 473 Cont 3 mths 1776-77 1797-98 1799-800 1819-20 1799 1822/1788 85.850 +0.475 65.750 65.300 1,885 65 85.850 +0.475 65.750 65.300 1,885 65 -1818.5-19.0 1798-97 PLATINUM NYMEX (50 Troy ILIVE HOGS CME (40,000lbs; conts/lbs) 4325 +20 4338 4 4343 +20 435.0 4 437.0 +20 437.0 4 41,766 43.850 +0.725 44.000 43.225 4.205 2.280 44.575 +0.775 44.675 43.600 7.011 2.434 42.025 +0.475 42.050 41.400 8.341 1.385 42.950 +0.150 43.000 42.700 5.303 425 E ALLINENRUM ALLOY (5 per-tonne) 1656-64 1640-50 43.150 +0.200 43.160 42.900 1655-65-T. 001) XEMYN MUNDALLAG 156.70 +0.85 157.00 15 PORK BELLIES CME (40,000fbs; cents/fbs) 158.60 +0.85 159.00 358 36.075 +0.900 38.150 34.000 4,776 1,542 180.80 +0.85 161.00 34.975 +0.890 35.850 33.300 2.858 49.725 +0.850 48.725 48.400 292 48.250 - - 32 48.350 +0.250 49.250 - 7 606-6.5 622-23 N SILVER COMEX (100 Troy of 610.5-11.5 51.500 -0.500 51.500 50.000 538.8

CROSSWORD No.8,780 Set by QUARK

1 Traveller's means of mainte nance - changing notes (11)
7 Losf or nut? (3) 10 RC? My angle is different, possibly (9)

11 No charge? That's absolutely absurd (9) 12 Part of the hullabaloo's exceptionally unrestrained (5) 13 First name in mind when thinking of 1 across? (?) 15 English team's training initially way out (4)
18 Stuff in hamper endlessly (4)

20 Top level in showbiz? Ben's face, perhaps, shows it (3,4) 23 Enraged artist in short article 24 Simple departure, relaxed 26 The one who gets the post (9)

27 Is it needed for parking in home territory? (5) 28 One's often in a row (3) 29 Way to upset honest argument? Just a little way (6,5)

DOWN

1 Support of light beams (8)

2 Erect New Vic later (8) 2 Erect New Vic later (8) 3 The money raised on produc-Concealment of the south-east Supervise the lines in Old nglish (7)

Throw egg - fun nil, or over-whelming? (9) Undistinguished piece of open land (6) Speak jokingly of a stake in British Rail (6) 14 Scare with line about thefts

16 The government post-holder is one in the cathedral (8) 17 Evade action over argum

It could grow by the way (8)
19 Distinguished musician rates exceptionally in a short time 20 Probes, ie gets at partly, to assail with requests (?) 21 Subject of a barbershop quar-

tet? (6) 22 Prevent free movement of food container (6) 25 Shatter mug at the range (5)

Solution to Saturday's prize puzzle on Saturday June 17. Solution to yesterday's prize puzzle on Monday June 19.

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See 1.20 +0.015 1.955 1.910 17,419 2.951 Oct 1.340 +0.015 1.915 1.910 8.205 708 Rec 1.910 +0.015 1.915 1.910 8.205 708 Rec 1.975 +0.005 1.900 1.975 14,631 1,366 Total 143,283 27,624 I UNLEADED GASOLINE NYMEX (42,000 US galls; cUS galls.) Latest Bey's Open pation change litigh Law int Vel and 81.60 +0.68 51.75 60.80 36,608 14,049 Aug 58.95 +0.38 59.10 58.45 16,235 5,772 Sec. 57.55 +0.25 57.50 5,822 1,909 Latest Bey's Open medium: 103p/kg, medium: 34p/kg, low medium: 103p/kg, fighest prices realised this week was 162p/kg to a kenya pril.											-											
Get 1.840 +0.015 1.845 1.835 13,068 1.241 New 1.910 +0.012 1.915 1.910 1.206 708 Ges 1.975 +0.005 1.980 1.975 1.983 1.885 Ges 1.975 +0.005 1.980 1.975 1.983 1.886 Total ## UNLEADED GASOLINE ## Union change light Law int Vel ## G1.60 +0.68 61.75 60.80 36.808 14,049 Amp 68.95 +0.38 59.10 58.45 16.358 5.772 ## G1.60 +0.68 58.75 57.70 5.822 1,900 ## Total ## G1.60 +0.68 58.75 57.70 5.822 1,900 ## Total ## G1.60 +0.68 58.75 57.70 5.822 1,900 ## Total ## G1.60 +0.68 58.75 57.70 5.822 1,900 ## RELITERS (Base: 18/9 ## Jun 8 Jun 2					1.825	1,810	17,419	2,361		ied demo	nd con	tiqued	palecti	e this	week							
Bec 1.975 +0.005 1.980 1.975 14.931 1,386 Total 143,283 27,824 ## UNLEADED GASOLINE INNEX (42,000 US galls; cUS galls.)	•	Oct :	1.840	+0.015	1.845				neco	rts the To	ea Brok	MA, VA	ęccietk	on. Brig	phiest	VO.	LUMBE DAT	ľA				
Total 143,283 27,824 ## UNLEADED GASOLINE INVEX (#2,000 US galls; c/US galls.)	• •								and	seicted ined firm	good but	medii. Echt L	an ta Suomina	er A11 1003	MOLD :	i Op	an interes	and '				
WHEX (#2,000 US gails; crUS gails) Latest Boy's - Open prior telegraph ligh Law int Vel (and September 1998) 56.95 +0.38 \$9.10 \$9.60 \$1,508 \$									825	er by up	to 6	pence.	Colou	ny med	ALC: US							
Coylons advanced but others lost ground. Off- short fathers lost ground. Off- short fathers lost ground. Off- short fathers lost ground. Off- short fath demand at generally lower levels. Cucutations: best available: 140p/log.good 120p/ log. good medium: 103p/log. medium: 94p/log. low medium: 103p/log. medium: 94p/log. low medium: 103p/log. fighest prices realised this week was 162p/log for a kenya ph. Jun 5 Jun 5 Jun 2				GASO					Were	about s	discou	out plair Interior	ningra Where	or seat sold	types Setter				·~ #*		44	
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Sec. 57.55 +0.28 57.50 57.10 5.822 1.909	٠.	ARE				58.45	16,358	5,772							#1960	■ RE	EUTERS (B	ase: 16	9/31=1	00)		
						57:10	5.822	1,909	. """						[m đ	Jun 2	mont	th ago	VEST	

E CRS Futures (Base: 1967=100)

Jun 2 month ago year ago 2303,6 - 1974.5

Jun 1 month ago 234.60 235.52

INTERNATIONAL CAPITAL MARKETS

Spotlight likely to fall on D-Mark sector

By Antonia Sharpe

There was no new issuance in the eurobond market yesterday due to the holiday in most of continental Europe, but syndicate managers in London were busy pricing deals which could

emerge later this week. However, they noted that the strong rally in government bond markets in the US and Europe on Friday, which had caused spreads in the euro-

INTERNATIONAL BONDS

bond market to widen, and the lack of investor flows yesterday, made it difficult to price

"It's a shot in the dark," said one syndicate manager. Another said that when pricing deals yesterday there was a difference of as much as 15 basis points compared with Friday.

The focus this week is likely to be on the D-Mark sector, which continues to offer some arhitrage opportunities in the five-year area,

The bighlight could be a global bond offering from L-Bank, which could raise hetween DM1hn and DM2hn and have a maturity of 10 years. The deal has not yet been mandated.

Rabobank is thought to be looking at raising five-year D-Marks. Other German state banks, such as Nord Deutsche Landesbank, could also tap the D-Mark sector soon and more D-Mark deals destined for Asia from frequent borrowers could also be forthcoming.

Elsewhere, Morgan Stanley is arranging a floating-rate note for Dean Witter Discover, the US brokerage with a large credit card operation. The deal, which will be senior holding company debt, could raise between \$200m and \$300m.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

US retreats from overnight highs By Lisa Bransten in New York

and Conner Middelmann

US Treasuries continued to rise yesterday morning on the heels of Friday's rally, but by mid-morning prices were off the highs achieved in overnight trading in Asia and

Europe. In London, the benchmark 30-year Treasury climbed as much as % to yield 6.47 per cent, hut by mid-day in New York the beauty cumned as York the long-bond was trading just 1/2 higher at 114-23/32 to yield 6.490.

At the short end of the maturity spectrum, the two-year note was a higher in New York at 101 to yield 5.518. Although bonds were stron-

ger across the maturity spectrum, several analysts warned that the market might he due for some correction, even if only a modest one.

S.G. Warburg in New York, for example, reduced the bond portion of its balanced portfolio to 25 per cent from 35 per

"The shift in the balanced portfolio mix rellects the share rally in bonds since late 1994, which has taken them to fair value," said Ms Gail Dudack, chief investment strategist at

S.G. Warburg. Trading volume was very light and little was released in the way of important economic

At 10am the Commerce Department reported that April completions of privately-owned housing units fell by 7 per cent

GOVERNMENT BONDS

That data, however, did little to move the market because they do not provide much information about the economy in the second quarter.

■ With most European markets closed for a holiday, government bonds in the only active markets - UK, Italy and Spain - tracked US bonds higher on light volume.

Sentiment across Europe remains bullish, supported by continued strength in US Treasuries and hopes for interest rate cuts in the US and Europe. senior dealer. A pick-up in Japanese huying is also underpinning Europe's

government bond markets. dealers said. "We are beginning to see some healthy flows from Japanese investors who are going overseas after the hond market meeting tomorrow. rally there has brought 10-year JGB vields below 3 per cent." said Mr Julian Jessop, Euro-

Markets. Europe's bond markets may also benefit from some switch-ing out of US Treasuries, which have been outperform-

pean economist at HSBC

ing Europe A risk to the European rally could be a correction in the US market, however, and dealers will be examining Friday's US producer prices data for confirmation of the subdued inflation picture.

■ UK gilts held on to Friday's gains, and the yield curve steepened again as short maturities outperformed the long end on continued interest rate

rate increase this week appear 0.42 to 101.47.

Mr Kenneth Clarke, the chancellor of the exchequer. and Mr Eddie George, Bank of England governor, are widely expected to leave interest rates nnchanged at their policy

Good demand for short-dated paper enabled the Bank of England to sell the shortest of the four gilt tranches it announced on Friday - £200m of 7 per cent stock due 2001 fairly quickly.

Later in the day the other tranche of conventional stock \$200m of 8 per cent gilts due 2013 - was sold out. The two £100m tranches of index-linked stock remained untouched. The June long gilt futures contract on Liffe ended at 109훈, up 급.

■ Italian and Spanish bonds ended the day higher, though their gains were posted on thin volume and largely in response to firmer US Treasuries.

Spain's June 10-year bond future rose 0.42 to 87.37 while "All thoughts of an interest Italy's 10-year contract gained

issue would be oversubscribed

and that the institutional allot-

ment would be scaled back to

provide for domestic retail demand, said Mr Antonio

Beck of Bankers Trust in

Bankers Trust ensured the

acquisition of enough Portugal

Telecom shares to cover the

warrant issue, which is worth

about \$23m, by purchasing

shares in Companhia Portu-

guesa de Rádio Marconi before

the Portugal Telecom issue.

Holders of Marconi shares

were guaranteed Portugal Tele-

com shares in an exchange

Loodon

mutual fund investment By Conner Middelmann

Bank sees

scope for

European retail investors' interest in their respective equity markets remains mnted. with subscriptions amounting to \$900m in April, up from March but well down on early 1994, when they aver-

inflows into equity mntual funds in Europe, even assum ing no increase in the 'equity culture' of retail investors, states J.P. Morgan in the first edition of a monthly publication which charts cash funds

These are significant sums of money and they could be sufficient to drive their fudividual equity markets higher in due course," it says.

The assets of European mutual funds have increased by 45 per cent in the past four years and currently total \$1,000bn, with an equity component of around \$200m.

den, the UK and the US.

Standby facility for Spain heavily oversubscribed

By Antonia Sherpe

to Ecu150m.

LOANS

each. However, dua to the

strong demand, their commit-

ments have been scaled back

The favourable response has

also raised speculation that

Spain could increase the size of

the loan, which is replacing an

existing facility signed in September 1993 that was not due

NatWest said such specula-

tion was premature since gen-eral syndication had only just started and was not due to be

Spain will pay a facility fee

of 4 basis points and a further

margin of 4 basis points over the London interbank offered

rate rate (Libor) on the new

loan, making an all in cost of 8

basis points. This compares

with an all-in cost of 12.5 basis

points over Libor on the old

CEZ, the Czech Republic's partly-privatised energy utility,

is set to sign its \$100m syndi-

cated loan agreement on

Thursday, writes Vincent

Capitalising on its triple B minus investment grade rating

from Standard & Poor's and an

indicative A minus rating from

the Japan Bond Research Insti-

Boland in Prague.

facility.

completed for two weeks.

SYNDICATED

to mature until 1996.

Spain's new Ecu5bn five-year standby loan has been oversubscribed even before it reaches general syndication. NatWest Markets, the sole arranger of tha deal, said it had attracted 35 banks as underwriting lead managers with commitments of Ecu300m

aged \$3bn a month.

However, "there remains considerable scope for large

into European mutual funds.

This is particularly the case in France and Italy, where holdings of domestic equitie as a percentage of the total portfolio of mutual fund assets have fallen. This leaves the potential for FFr35bn to FFr65bn of new investment in domestic equities in France, and in Italy L15,000bn J.P. Morgan notes.

Ms Caroline Méroz, an equity strategist at the US investment hank, says investors are using mntnal fund flows data as a tool in analysing financial markets - especially in the US. "It helps fund managers - international and domestic - to gauge the sentiment and liquidity of a market," sbe says.

J.P. Morgan will be tracking funds invested in domestic equities in France, Germany, Italy, Netherlands, Spain, Swe-

The deal, which is being arranged by Sumitomo, will set a new benchmark for borrow. ers from eastern Europe.

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- , - 27.72

Last year three of the Czech Republic's main banks signed syndicated loan agreements that each reduced the spreads on offer. This was followed in March hy SPT Telecom, the state telephone company, which entered a \$150m agree ment at 35 basis points over Libor.

The loan agreement is the latest in a series of financing measures CEZ has undertaken to fund a large investment programme. The aim is to reduce polintion at coal burning power stations in the Czech Republic and to complete the country's second nuclear plant, at Temelin, with Westinghouse, the US group.

Last week, CEZ launched the longest-dated bond yet issued on the Prague market - a Kealm 10-year domestic teme with double the maturity of other Czech bonds, which could mark a significant step forward for Czech companies seeking long-term domestic capital. The iasue was arranged by ABN Amro, CS First Boston and two Czech hanks, Zivnostenska Banka and Ceska Sporitelna.

CEZ is also considering an international bond issue later this year following its successful \$150m eurobond last

• RNGS, Russia's leading oil and gas construction company, will in the next few weeks offer another tranche of its government-owned shares to international investors, Mr J.D. Allen, company director, said yesterday, Renter reports.

Mr Allen said the company planned to sell around 4 per tute, the company expects the loan, which has been increased cent more of the shares at from an initial \$75m, to be about \$450 a share. The shares priced at 25 basis points over pay a fixed 8 per cent annual dividend.

Telecom issue breathes life into Lisbon

By Peter Wise in Lisbon

Portugal Telecom is hreathing new life into the Lisbon share market, dominating trading and inspiring the issue of the first warrant for a Portuguese equity. But the price has not climbed as strongly as expec-ted after last week's beavily

oversubscribed offer. The shares closed at Es2,907 yesterday, up from Friday's close of Es2,900. This represents an increase of 3.82 per cent from the issue price of Es2,800, but it is short of the early 10 per cent gain envis-aged by global co-ordinators Merrill Lynch, S.G. Warhurg, Union Bank of Switzerland and Banco Essi.

7.500 07/05 \$2.4100 +2.310 8.64 8.84 9.82 7.000 05/05 0.0000 - 0.00 8.99 7.32 8.500 03/05 0.0000 - 0.00 7.42 7.84 8.50 0.0000 12/04 107/2500 -0.150 7.90 8.21 8.65 7.700 12/04 0.0000 - 0.00 8.21 8.66 7.750 04/00 0.0000 - 0.00 7.48 8.77 7.50 04/00 0.0000 - 0.00 7.48 7.77 6.675 25/05 0.0000 - 0.00 7.48 7.77 6.675 25/05 0.0000 - 0.00 8.68 7.05

if the price fails to move more strongly upwards over the next few days.

Volume has been high for

The number fell to 590,600 yesterday but nevertheless accounted for 60 per cent of turnover. The company accounts for 16 per cent of Lisbon's total market capitalis-

Dealers expect some pricesupport buying from Portugal Telecom and the underwriters also a step towards redressing else in the market, that this inated by hanks.

Lisbon. More than 1.5m Portugal Telecom shares were traded in only two hours on Friday, accounting for 75 per cent of total turnover.

"Portugal Telecom bas

helped create the greater liquidity that institutional investors are looking for in Portugal," said Mr Trevenen Morris-Grantbam, an analyst with Carnegie Portugal. "It is

Italy

III BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

the balance of a market dom-

Underlining the importance of the placement to the Portuguese market, Bankers Trust has launched an issue of 1.25m call warrants on Portugal Telecom shares, the first to be issued on a Portuguese equity. Each warrant controls one Portugal Telecom share.

The warrants, traded in London and listed in Luxembourg, were issued to provide holders with liquidity in Portugal Telecom shares, following an offer that left many investors with only a fraction of the shares they ordered. The one-year warrants can be exchanged for shares at any time during their lifetime.

"We knew, as did everyone

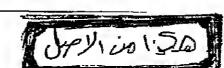
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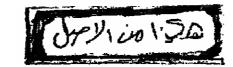
Bankers Trust International is the issuer and lead manager. Banco Português de Invest-FT-A

	14.		100	1781				111	7. 3		4,144				
ACTUARIES Indices	Mon Jun 5	Day's change %	Fri Jun 2	Accrued Interest	xd adj. ytd		Low Jun 5			Medium Jun 5	Jun 2		High Jun 6	coupon Jun 2	
to 5 years (23)	122,80	+0.14	122.63	2.35	4.27	5 yrs	7.43	7.47	8,03	7.46	7.50	8.24	7.50	7.55	8.34
15 years (21)	147.88	+0.17	147.63	2.09	5.44	15 yrs	7.78	7.78	a31	7.78	7.79	8.43	7.92	7.93	a77
or 15 years (9)	166.98	+0.13	157.81	1.89	2.08	20 yrs	7.78	7.78	8.27	7.79	7.80	6.43	7.91	7,91	a 56
rdeemables (6)	191.11	-0.27	191.63	1.18	6.36	Irred.†	7.88	7.84	a37						
stocies (53)	143.60	+0.15	143.65	218	5.10										
							-	Inflati	on 5% -	_	_	- Inflation	10% -		
-tinked							. Jes	ı 5 Ju	n 2 Yr.	ADO	Jun	5 Jun	2 Yr.	ago	
to S years (2)	195.07		756.08	0.91	2.57	Up to 5 yrs	2.	99 2	.97 3	.73	1,4	7 1	45 2	.78	
er 5 years (11)	187.65	-0.05	187.72	1.33	1.73	Over 5 yrs		52 3	.52 3	.77	3.3	3.3	33 3	.59	
stocics (13)	187.65	-0.05	187.75	1.29	1.81										

CAT 7.500 04/05 0.0000 - 0.00 7.48 7.77 Garmany Bund 6.875 05/05 0.0000 - 0.00 8.68 7.05	INOTIONAL TIALIAN GOVT. BOND (BTP) FUTURES	Index-linked Jun 2 Yr, ego Jun 5 Jun 2 Yr, ago
Ireland 6,250 10/04 0,0000 - 0.00 6.41 8,83	(LIFFE)' Ura 200m 100ths of 100%	6 Up to S years (2) 195.07 156.08 0.91 2.57 Up to 5 yrs 2.99 2.97 3.73 1.47 1.45 2.78 7 Over 5 years (11) 187.65 -0.05 187.76 1.33 1.73 Over 5 yrs 3.52 3.52 3.77 3.33 3.33 3.59
Japan No 118 4,800 08/99 110,0800 -0.270 2,09 2,13 2,56	Open Sett price Change High Low Est vol Open Int. Jun 101_26 101.47 +0.42 101.55 101.18 24759 24735	7 Over 5 years (11) 187.65 -0.05 187.75 1.33 1.73 Over 5 yrs 3.52 3.52 3.77 3.33 3.39 8 All stocks (13) 187.65 -0.05 187.75 1.29 1.81
No 174 4.600 09/04 113.0850 +0.650 2.82 2.96 3.33 Notherlands 7.000 06/05 0.0000 - 0.00 6.75 7.12	Sep 100.77 101.13 +0.48 101.16 100.77 21036 21809	Average gross redemption yelds are shown above. Coupon Bands: Low: 014-714%, Medium: 816-101616; High: 11% and over, 1 Ret yeld, yid Year to dete.
Portugal 11.875 02/05 100.1000 +0.300 11.83 11.89 12.26 Spain 10.000 02/05 92.7400 +0.420 11.23 11.44 12.11	II ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Linz 200m 1000ms of 100%	
Sweden 6,000 02/05 0.0000 - 0.00 10.82 11.35	Price Sep Dec Sep Dec	
8.500 12/05 105-19 - 7.71 7.93 0.36	10100 2.07 2.84 1.94 3.20	FT FIXED INTEREST INDICES QILT EDGED ACTIVITY INDICES
9,000 10/08 110-03 +2/32 7.77 7.99 2.36 US Treasury' 6.500 05/05 103-10 -12/32 6.05 8.40 7.02	10150 1.80 2.71 2.17 3.47 10200 1.54 2.49 2.41 3.75	Jun S Jun 2 Jun 1 May 31 May 30 Yr ago High' Low Jun 2 Jun 1 May 31 May 30 May 26
7.625 02/2S 114-26 -10/32 6.49 6.75 7.34 ECU (French Govr) 8.000 04/04 0.0000 - 0.00 7.82 8.14	Est. vol. total, Cells 1806 Puts 247. Previous day's open inc., Calls 18335 Puts 12962	Govt. Secs. (UN) 95.51 36.24 94.61 94.31 94.39 93.13 95.51 90.22 Gift Edged bargains 87.5 88.8 109.4 109.3 104.8 Fixed interest 114.60 113.96 113.95 113.68 113.59 110.71 114.60 108.77 5-day average 100.0 128.1 128.5 127.2 121.1
London closing, "New York mid-day Yielder Local market standard.	Spain	to 1985 Covernment Securities high wine completion: 127.40 (27/125), low 49:0 (27/125). That Interest high since completion: 133.87 (21/1/94), low 50.53 (27/175). Beets 100: Government, Securities 15/10/
† Gross finctuding vertiholding terr at 12.5 per cont psychle by nonresidents) Prices: US, UK in 30nds, others in declinal Source: MMS Interreported	NOTIONAL SPANISH BOND FUTURES (MEFF)	26 and Freed Interest 1925. SE activity Indices rebased 1974.
US INTEREST RATES	Open Sett price Change High Low Est. vol. Open Int.	
Lunchtune Treasury Bills and Bond Yields	Jun 87,15 87,37 +0.43 87,70 87,05 37,544 40,850 Sep 87,00 67,13 +0.87 87,50 87,00 3,049 4,654	FT/ISMA INTERNATIONAL BOND SERVICE
One month	UK	Lated are the latest international bonds for which there is an adequate secondary market. Latest prices at 7500 pm on June 5
## State 10 10 10 10 10 10 10 1	NOTIONAL UK GILT FUTURES (LIFFE)* 250,000 32nds of 100%	issued Bid Other Chy. Yield Is
Fed. turnés at Intervention. One year 5,47 30-year 6,47	Open Sert price Change High Law Est, vol Open Int. Jun 109-03 109-05 +0-02 109-12 109-00 5999 28811	ASSEY NATIL THEASURY 5 97 _ 1000 98% 98% 5.69 Volkswagen Ind Fin 7 03 1000 100% 4% 6.96 Allemon Less 11% 67 5 100 106% 107% 4% 7.40
	Sep 108-23 108-22 +0-02 108-29 108-16 35184 106270	Abbuty Ned Tressury 6-2 00 1000
	Strike CALLS PUTS PUTS	Aberta Province 7 ¹ / ₂ 98 1000 1047 ₆ 1054 ₆ 5.99 World Bank 8 ¹ / ₄ 00 1250 113 114 ¹ / ₂ - ¹ / ₆ 5.62 88 600 £ 1000 967 ₆ 100 ¹ / ₆ + ¹ / ₈ 8.02 Austre 8 ¹ / ₂ 00 400 109 ¹ / ₂ 1067 ₆ - ¹ / ₂ 6.07 Heither 10 ¹ / ₂ 97 £ 100 1047 ₆ 105 ¹ / ₆ + ¹ / ₈ 7.28
	Price Jul Aug Sep Dec Jul Aug Sep Dec	Baden-Warre L-Fin 81g 00 1000 1077g 198 -1g 6.11 SMSS FRANC STRAIGHTS Harrison 107 g 7 E 500 1055g 1157g +1g 7.65
BOND FUTURES AND OPTIONS	108	Bark Ned Germenton 7 99 1000 104 1044 5.89 Asian Dev Bark 6 10 100 105 108 5.51 HSBC Holdings 11,89 02 2 153 1153 1153 1153 1153 1153 1153
	110 0-22 0-48 1-02 1-36 1-42 2-04 2-22 3-22	Belglum 512 07 1000 834 935 6.54 Council Europe 414 99 250 107 14 102 4.05 Japan Dev 814 7 00 E 200 87 971 +14 7.69 EFCE 714 97 100 1031 1031 1031 1031 1031 103
France	Est. vol. total, Calls 4943 Puts 2967. Previous day's open Int., Calls 29094 Puts 29316	Sets of Columbia 74, 02 500 1077g 1
MOTIONAL FRENCH BOND FUTURIES (MATIF) FF1600,000 (Jun 2)	Ecu	84 145 4 145
Open Sett price Change High Low Est. vol. Open int. Jun 116,00 115,74 116,16 115,66 122,586 115,396	Open Sett price Charge High Low Est, vol. Open int.	Cheung Kong Fin 5 ¹ / ₂ 98 500 94 ¹ / ₈ 95 ¹ / ₉ 7.48 Hyundai Mozor Fin 8 ¹ / ₂ 97 100 107 108 5.13 Tokyo Bec Power 11 01 £ 150 113 ¹ / ₈ 114 ¹ / ₈ 4 ¹ / ₈ 8.02 Cheru 8 ¹ / ₇ 04 1000 95 95 ¹ / ₈ 4 ¹ / ₈ 7.42 lookund 7 ¹ / ₈ 00 100 111 112 5.14 Abbey National 0 98 NZS 100 89 ² / ₈ 90 ¹ / ₈ 8.81
Sep 115.66 115.38 -0.02 115.74 115.34 10,443 39,167	Jun 86.00 86.04 +0.12 86.38 86.00 1,994 8,013	Countil Europe 8 96 100 100½ +1a 5.81 Kotos 65 01 240 100½ 4.81 TCNZ Fin 9½ 02 NZS 75 100½ 4.05 100½ 4.05 NZS 75 100½
Dec 115.44 115.16 - 115.50 115.28 125 2,017 LONG TERM FRENCH BOND OPTIONS (MATIF) (40m 2)	Sep 85.86 85.88 +0.12 86.22 85.86 184 331	Dermark 51, 28
Strike CALLS PUTS	US	East January Regulary 6% 04 600 100½ 100½ 6.54 SPACE 7.04 450 113½ 114 5.17 SNACE 9½ 97 FFF 4000 104½ 104½ 6.71 ECSC 6½ 95 193 100½ 100½ ½ 5.67 World Bearls 5.03 150 101 101½ 4.65
Price Jul Sep Dec Jul Sep Dec 114 1.64 0.21 0.80 -	US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%	EEC 8 4 96 100 102 102 1 5 5.55 World Bank 7 01 800 111 1 112 4.71 FLOATING RATE NOTES 505 7 4 96 250 107 102 102 10 5.91 5.91
115 0.95 1.53 - 0.48 1.08 -	Open Latest Change High Low Est vol. Open int.	EE 9's 97 1000 1071; 1071s 5.84 YEN STRAGENTS
116 0.46 1.01 1.60 - 117 0.19 0.60 - 1.73	Jun 114-30 115-18 +0-22 115-26 114-30 62,9731 168,846 Sep 114-17 115-06 +0-22 115-15 114-17 584,540 236,734	Ex-im Bank Japan 8 02 500 109 4 109 6.32 EE 65 00 10000 120 120 217 Banksmerica 4 99 750 99,80 99,71 8.4375
118 0.05 0.37 Est. vol. total. Catha 15 730 Puta 9.148 . Provious day's open int., Catha 132,846 Puta 121,044.	Dec 114-14 114-22 +0-22 114-29 114-14 4,220 14,425	Federal Net Mort 7,40 4 150 1074 1074 4 6.45 for Ange Dev 74 000 2000 123 1294 229 BFCE -0.02 95 350 98.93 100.03 6.0425
and the sense that the real of the relationship and the real real real real real real real rea	Japan	Friend 6% 97 3000 102 1024 1, 5.95 key 3-2 01 30000 1034 1034 2.95 Canada 1, 90 2000 98,32 99.40 5.9375 Ford Motor Credit 6% 98 1500 100% 100% 100% 1, 6.19 Japan Dev Bk 5.96 100000 112% 112% 1, 5.95 CCGE 0.00 Ecu 200 99.24 99.44 6,1892
Germany	INOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES	Ger Ber Capter 9-1, 95 300 109-1, 100-1, 100-1, 5.98 Japan Dev Bit 6-2 01 120000 122-1, 123 2.52 Credit Lyornesis & 00 97-22 97-79 6.8875
NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%	(LIFFE) Y100m 100ths of 100% Open Close Change High Low Est, vol Open trit.	ther Armer Dev 77, 98 200 1017, 1021, -1, 6.000 Norway 51, 87 150000 1067, 197 1.24 Descript Finance 1, 98 CM 1000 100.00 100.00 4.5328
Open Sett price Change High Low Est. vol Open Int. Jun 96.06 96.14 +0.16 96.24 96.02 56027 66265	Jun 120.54 120.92 120.54 438 0	120 Sty 57 22 2500 Sty 314 783 Styne 5 02 12500 1261 1261 41 227 Finland 0 97 1000 100,10 100,23 6,7500
Sep 65.55 95.64 +0.16 95.72 96.46 33110 121161	Sep 119.40 119.64 119.37 3206 0 LETTE futures also traded on APT. All Open interest figs are for previous day.	200 1101g
UK GILTS PRICES	The same of the sa	Kornel Bioc Power 5½ 00 1350 97 97%, +½ 8.99 Work! Bornit 5½ 02 250000 118½ 118½ +½ 2.56 Bady ½ 95 2000 100.19 100.
200 m 3 V. 102 m C		Norvery 71, 97 1000 10212 10224 -1, 5.78 FINLAND 8 04 LFT 5000 Malaysia 1, 08 95.0 99.44 89.85 6.5000
Yeld	Yield 1995	Cear Particularis 6-2 cri 200 111 111-9 -4 6.18 MS Deat Inclusion 5-2 cri 2000 Nova Scotia A 56 500 99.81 99.90 6.3750
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Each 12th 1998	indexing (is 8 months prior to issue) and have been adjusted to reflect rebeating of RPI, to 100 in February 1987, Convention	Credit Force: 8% 04 Eq. 1000 1027; 1004; 44 7.90 Nerson 95 06 E 500 2.48 1025; 1004; 457
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Teas 111-pc 2001-4	- 374 174 Medical Angus 374 pc 2021 - 418 1431 1434 1435 143	CHAPTER FORTER CONTEST DESCRIPTION Of the Did-prick, the amount opered is in militare of currency units. City, day—Change on day. FLOATING FAITE NOTES: Demonstrated in datas unless orientees indicated. Coupon shown is minimum, Spread-Margin above ste-month offered rate (parse-notes) Sabove mean rate) for US obliers. Capterline current coupon. COMPRESE BONGS: Demonstrated in datas unless otherwise indicated. City price-information amount of bond per share expressed in currency of share at conversion case listed at sease, Premising persists of the currency of share at conversion case listed at sease, Premising persists of the currency of share at conversion case listed at sease, Premising persists of the currency of share at conversion case listed at sease, Premising persists of the currency of share at conversion case listed at sease, Premising persists of the currency of share at conversion case listed at sease, Premising persists of the currency of share at conversion case listed at sease, Premising persists of the currency of the currency of share at conversion case listed at sease, Premising persists of the currency of the currency of share at conversion case listed at sease, Premising persists of the currency of the currency of share at conversion case listed at sease, Premising persists of the currency of the curr



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ESDAY IUNE

Market attention shifts to UK interest rates The downward drift in UK day, with the exchange rate between the base rate and interest rates was a focus of attention yesterday with cur-rency markets taking a back seat owing to holidays in Europe, writes Philip Gawith. Two days shead of the monthly monetary meeting, three month LIBOR slipped to 6% per cent, a full 25 basis points below the 6% per cent base rate. This led some

MARKETS REPORT

observers to question the England had effective control over the level of short term interest rates in the market. Elsewhere the dollar had an uneventful day as bulls and bears sparred ineffectually with each other. It finished in London at DM1.4074 from DM1.406. Against the yen it closed at Y84.645 from Y84.13. In Europe, French and Ger-man markets were closed, but

Sterling had an uneventful

(AS) (HKS)

15 7809

48.0043 8.7504

1.5944 1.4392 2.1952

the French franc managed to make up some ground against the D-Mark, finishing at FFr3.501 from FFr3.519.

POUND SPOT FORWARD AGAINST THE POUND

+0.0516 732 - 874 +0.1421 637 - 448 +0.0282 447 - 560

- 106 - 116

+0.0043 940 - 947 +0.0033 385 - 416 +0.0049 944 - 360 +0.0781 847 - 362 +0.0036 943 - 940

5.9611 +0.0137 796 - 625 2.2161 +0.0058 169 - 193 5.8645 +0.0171 622 - 668

Mon) 1214.21 +2.27 390 - 452 1214.81 1207.86 (TS) 40.9296 +0.0983 181 - 411 40.9469 40.7178 (Bt) 39.3229 +0.1206 995 - 462 39.3462 39.1360

6.8672 +0.0093 616 - 724 7.8558 -0.0153 535 - 581 2.2442 +0.0073 433 - 451

0.9804 +0.0031 796 - 812

■ The advent of the monthly

meetings between the chancelwith them a more transparent and formalised process of monetary policy formulation, have reduced the importance of the Bank's daily money market operations. Minute attention to the monetary tea-leaves is unlikely to offer the dividends it once might have done.

That said, market rates can still offer an insight into mar-1.5960 1.5966 1.5937 - Prev. close -1.5895 1.5890

ket expectations, and the Bank certainly watches key short term rates to ensure they do not diverge too far from official rates. The 25 basis point gap

15,7874 15,7203

46.0448 45.8280 8.7597 8.7249

5.8780 6.8320 7.8823 7.8410 2.2474 2.2352

360.589 367.930 0.9815 0.9795

1.5962 1,5860 1.4416 1,4341

5.9841 5.9495 2.2193 2.2075 5.6668 5.8370

15.7572 1.8 45.9393 1.7 8.754 -0.5

0.98 0.5

+0.0037 786 - 812, 0.9615 0.9795 0.98 0.5 0.9796 0.2 0.9801 -15.24 755 - 092 2601.28 2584.11 2596.73 -4.4 2616.23 -4.2 2687.73 +0.442 637 - 448 48.0448 46.6290 45.9393 1.7 45.8093 1.7 45

1.2212 1.2098 1.2113 0.0

8.7458

7.8637 -1.2 7.8743 -0.6 7.8416 2.2408 1.6 2.233 2.0 2.1938

index finishing at 84.2, from three month money has led some analysts to wonder whether the Bank might not be

trying to close this gap. Mr Philip Shaw, economist lor and the governor of the Bank of England, bringing said: "Traditionally the Bank tends to get a little nervous if three month LIBOR goes too far below base rate." He said there had been a few signs that the Bank was trying to scale back its daily assistance to push up overnight money and

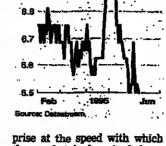
other period rates. Mr Nick Parsons, treasury economist at Standard Chartered in London, agreed that the Bank's daily operations in recent days raised the question of whether it had been trying to send a message.

Others surmise that 25 basis points is well within the Bank's accepted tolerance level, arguing that it requires an active imagination to discern any pattern in the Bank's activity over the past few days. Mr Parsons expressed sur-

0.2 6.7149

1.21 0.4 1.2028 0.7

Sterling 3-month.LIBOR rate (%)



the market had revised down its expectations for UK interest rates. He said it smacked of a move that had gone "too far, too fast. The curve has flattened so dramatically thet there is barely any premium for risk."

Against this backdrop, Mr Parsons said it would be reasonable for the Bank to want

to see rates higher. "I think the Bank will be unhappy with the flatness of the UK yield curve at the moment, and its inabil-

ity to change that."

The level of market rates seems unlikely to have any material impact on tomorrow's meeting. Short term rates tend to be a function of liquidity conditions in the market. Offi-cial rates, by contrast, are aimed at tailoring monetary policy on an 18 month time horizon. It would be quite possible, in other words, to tighten monetary policy despite mar-

ket rates remaining soft. In its daily operations the Bank provided late assistance of £155m, and £750m at established rates, after forecasting a £900m shortage. Overnight money traded between 41/2 per cent and 6% per cent.

■ The dollar is not expected to make any sharp moves before the G7 summit starts next week. Mr Peter Luxton, analyst at MMS in London, said the market was nervous, unable to decide whether a recession was good or bad for the dollar. In the meantime, last week's central bank intervention appeared to have put a floor under the currency. WORLD INTEREST RATES

Over night

week ago US

week ago

Japan week ago

week ago

US Dollar COs

week ago ECU Linked Ds

week ago

Jun 5

Dutch Guilde

Franch Franc Portuguese Esc Speniah Passala Starting Swiss Franc

M S LIBOR FT Londs Interbank Fixing

One month

EURO CURRENCY INTEREST RATES

THREE MONTH PROR PUTURES (MATIF) Pars Interbank offered rate (FFr5m)

92.68 93.82 93.93

DWTH EUROLIRA INTLRATE FUTURIES (LIFFE) L1000m points of 100%

89.49 89.48 89.47 89.46

High

96.75 96.78 80.65 96,54

93.85 93.91 93.90

High

92.58 93.45 93.80

Low

Low

96,72 96,60 96,51

LOW

17.454 24,698 7,514

3915

Est. vot

Est. vol

Est. vol. Open ant.

106822

141280 134668 111314

Open int.

30398

32314

of 100%

Open int.

16368 16515

Open Int.

6604 3508

+0.16 +0.16 +0.12

IN THREE MONTH BURGMARK FUTURES (LIFE)* DM1m points of 100%

-0.01 +0.01

+0.09 +0.07 +0.05 +0.05

THREE MONTH EURO SWISS FRANC PUTURES (LIFTE) SFrim points

-0.02 -0.05 -0.02 +0.01

+0.05 +0.05

M THREE MONTH EURODOLLAR (IMM) \$1m points of 100% (May 25)

Change

THREE MONTH ECU FUTURES (LIFFE) Eculin points of 100% Change

Sett price Change

95.59

Sett price

89.48 89.48 89.46

Set price

93.84 93.90 93.92 93.61

Lztest

Open

Open

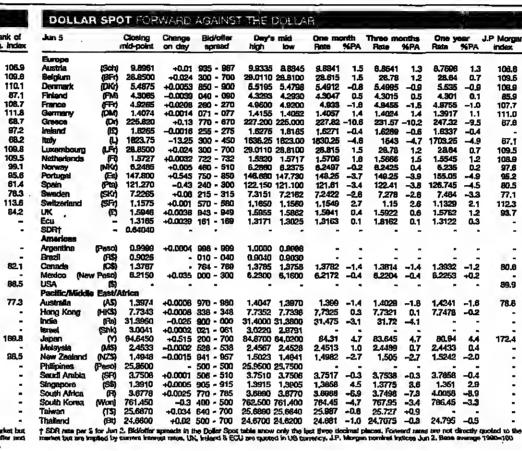
93,89 93,84

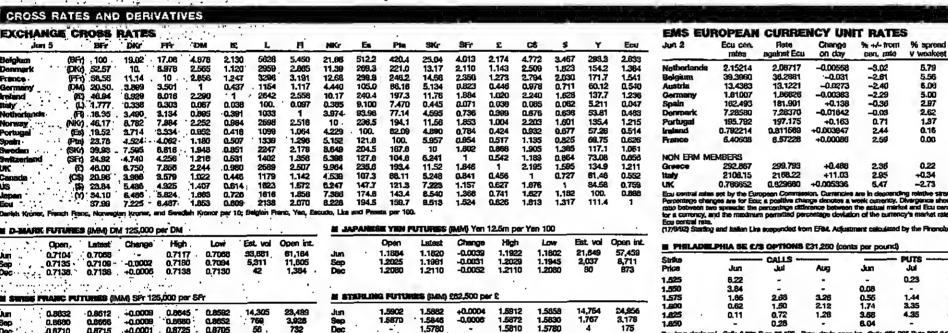
Open

Mr Tim Fox, economist at Credit Suisse, said the proximity of the G7 summit, and expectations of a settlement in the US-Japan trade dispute, provided the market with psychological reasons not to sell the dollar, rather than any rea-

son for buying it. He said the price action of the dollar last week, particularly the response to news of a Nato plane being shot down in Bosnia, "indicates the market wants to have an excuse not to be selling it too dramatically."

Jun 5	2	s
Hongary	194,855 - 195,006	122,220 - 122,270
fran	4784.70 - 4782.80	3000.00 - 3000.00
Kuwah	0.4757 - 0.4767	0.2984 - 0.2989
Poland	3,7307 - 3,7389	23400 - 23430
Russia	7819.79 - 7821.63	4903.00 - 4906.00
UAE	5.8549 - 5.8579	3,6724 - 3,6729





82.1

169.8

		CURRE				
Jun 2	Ecu cen.	Rate against Ecu	On day	Ser. 1950	% spread v weakest	Div.
Notherlands	2.15214	2,08717	-0.00558	-3.02	5.79	•
Bolgium	39,3960	36.2881	-0.031	-2.61	5.56	21
Austria	13,4383	13,1221	-0.0273	-2.40	6.08	•
Cormany	1.01007	1,86626	-0.00383	-2.29	5.00	-
Spain	162,493	181.901	+0.138	-0.36	2.97	3
Denmark	7.28580	7.28370	-0.01642	-0.03	2.62	0
Portugal	195,792	197.175	+0.163	0.71	1.37	-5
retend	0.792214	0.811569	+0.003947	2.44	0.16	-16
France	6.40608	6.57228	+0.00086	2.59	0.00	-22
NON ERM M	EMBERS					
Greece	292.867	299.793	+0.468	2.36	0.22	_
tafy	2106.15	2168.22	+11.03	2.95	+0.34	_
DEA						
LIK Ecu contral sala	0.786652 s set by the Eu	0.829680 ropean Commiss	+0.005336 ion. Currencies	5,47 are in descende		
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UK, Ecu contral sala Perpentago cha sato between su for a currency, a Ecu contral rate (17/9/82) Startin	0.788652 is set by the Europe are for Europe are for Europe are for Europe and the maximum and	(1.829680 repeat Commission a positive charpenings differ in permitted per a suspended from a suspended from	+0.005336 ion. Currencies inge denotes a v rence between centage deviation in EF84. Adjustr E31,250 (cent	5,47 are in deponds rook currency. If the actual marks and the currency nent calculated it s per pound)	ng relative stress dvargence whose whose st and Ecu card sy's market rate by the Financia	es the trainstee from its
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LIK, Exa control rate Percentage cha rate between to or a currency, a Exa control rate 17/9/92/ Startin PHILADE Strike Prica	0.786652 is set by the Europee are for Eoro spreads: the ind the maximum grand ballan Lin LPHIA SE £	0.929680 ropeen Commises us a positive cha percenting diffe in permitted per a suspended fro S OPTIONS	+0.005336 ion. Currencies inge denotes a v rence between centage deviation in EF84. Adjustr E31,250 (cent	5.47 are in descending the schall marks on of the currency nent calculated in per pound) Jun	ng relative stress that general wholest and Ecu can't by's market rate by the Financia PUTS	es the traination from its Times
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		Dec	94.58	94.62	+0.0		1.65	94.57	303,195	377,38 5 335,32 5
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V weak 5.79	est In	Jun	94.64	94.65	+0.0		.67	94.64	1,254	8,748
5.56 6.08	21	1 000	94.96 95.04	94,97 95.05	+0.0		1.98 5.07	94.95 95.03	4,136 1,273	11,617 11,736
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BASE LENDING RATES

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jun	93.37	93.35	-0.01	93.39	93,34	9165	67370
Sep	83.23	93.21	-0.01	93.28	93.20	21942	106948
Dec	93.12	93.12	-	93.16	93.10	12347	61242
dar	92.94	92.97	+0.03	93.05	92.84	9052	43055
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SHOR		а ортном	(LIFFE) 85				
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sHOR Strke	T STERLES	CAL	LIS	900,000 po	ints of 100	PUTS	Dec
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UK INTEREST RATES

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UK clearing bank base	lending rat	e 6% per o	ent from Fe	bruary 2, 19	96	
		Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
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LONDON SHARE SERVICE ## A Price | P 場合では、1.2000年の1.2000年 Heir Chinase Annual C ++ | | | | | | | | 38 38 37 21 29 Price 1482 394 394 494 85 1213 7213 7214 100 100 308 31 46 40 48 121 400 2 8 Pic Southing & Machae South A 11.5 Download & M. ATC On the character of 5.7周期的外代的现象不利的各种的位置的工作中的工作各种政策和通过的工作,各种政策的对抗,并不是有的政策的,这种政策的政策的,可以是对政策的政策的,这种政策的政策,可以是对政策的政策的,这种政策的政策的 143 143 149 145 124 124 188 471,9 1,930 1 2 1 1 2 1 2 1195-1255 2524 2524 2532 2532 1124 2532 1124 700 677 1145-1575-1 105-1575-1 236 50²416 279 385 395 395 396 396 529 906 823 81 70 655 200 Price HOUSEHOLD GOODS Arrange Notes 204 Arrange Note BANKS, 的2000年2000年,1000年 Mid: Confirm C **2017年 1978年 19** DISTRIBUTORS | Add Mec component of the co Alternative Motes Price
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| 19.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 |

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2,032 2005年416 120日の150日の1775年324 21482以前の150日では、1715年324 21482以前の150日では、1715年32日 LEISURE & HOTELS AMERICANS idid Captim 50,306 50,306 867.11 14,893 14,893 15,051 15,0 地名美国西班牙克斯 电电子电子 医二甲基甲基氏 医二甲基氏 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生 医二甲基氏原生原生 医二甲基氏原生 医二甲基氏原生原生 医二甲基氏原生 医二甲基氏原生原生原生 184 CapEm 24,865 1,962 19,925 24,504 6,862 4,280 4,423 4,423 28,774 8,07 8,378 1,846 B9、204,000であるからあるという。 1625年2月17日 1720年 1 High 471 935 964 964 2284 2284 2385 179 782 802 844 CANADIANS 1995 | 1995 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 1996 | 19 MM Capen 3,5952 3,563 5,512 774.9 3,146 3,360 51.4 546.0 51.4 546.0 51.4 79 730.1 2,864 1,475 Price S. 13-1-1 19-13-LIFE ASSURANCE 1995 kigh 12062 £ 666 216 510 218.2 5263 471 253 348 344 81 195 Met 1607 Captes 216.1, 5.282, 38.5 1,094 176 88.6.5 414 2,494 2123 4,175 822.2 2,702 317 2,786 303 425.8 250 6,802 241 544.3 172 278.6 480.4 480.4 Price 220.1 568 216 508 2174 1289 398 3673 347 346 380 68 566 **TELECOMMUNICATIONS** + or 19
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-5½ £225½
+2½ 187
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| 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | 1906 | | STATE | STAT 1.5 40.5 1.6 40.5 1.8 40.5 2.8 17.5 4.3 15.0 4.6 13.6 7.2 16.1 4.5 13.6 7.2 16.1 4.5 13.6 **TEXTILES & APPAREL** 1995 GUIDE TO LONDON SHARE SERVICE 1985 | 1977 | 1986 | 1987 | 1987 | 1987 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 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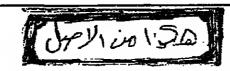
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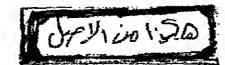
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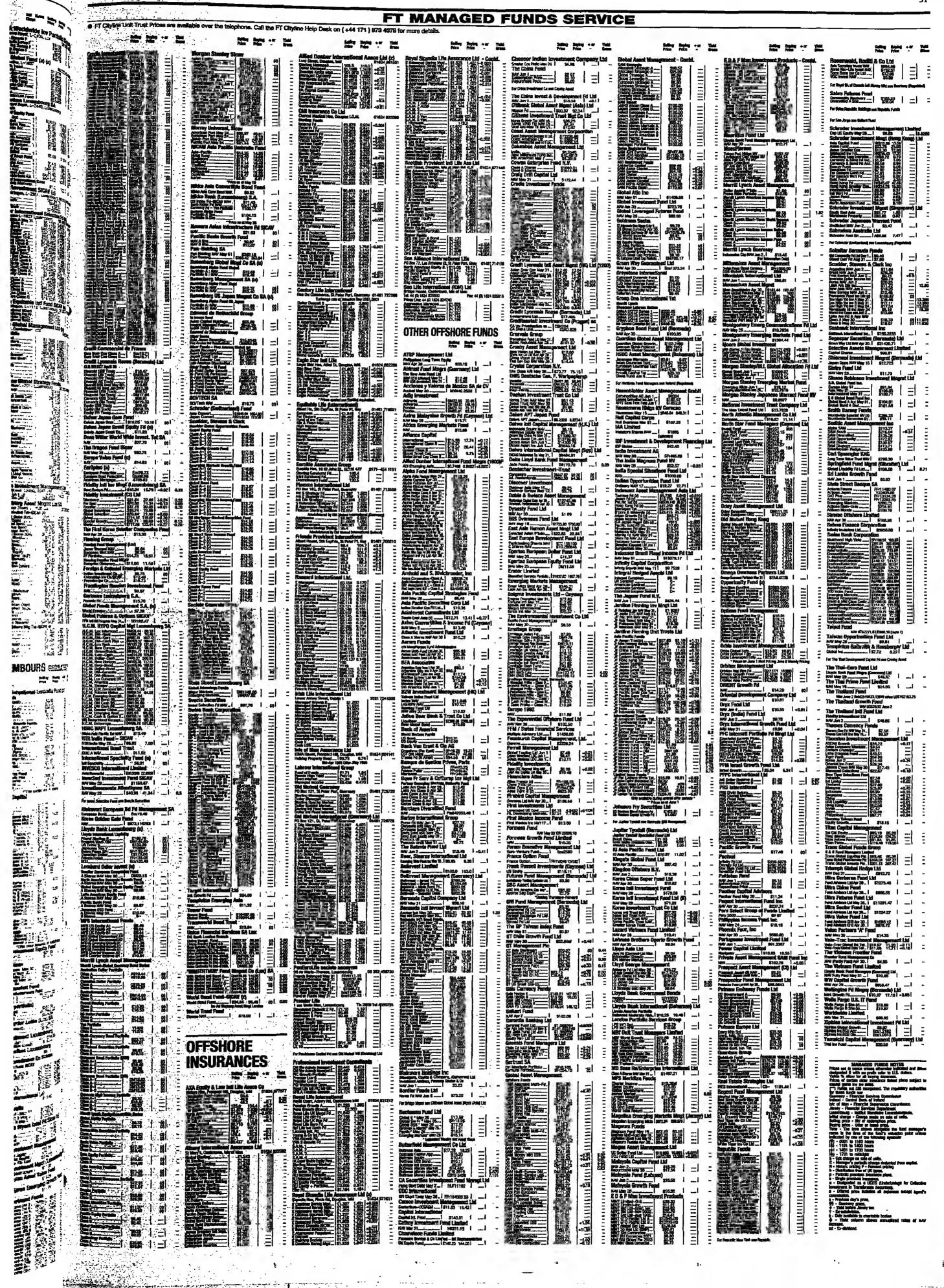
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LONDON STOCK EXCHANGE

Bid speculation drives FT-SE to 15-month high

By Steve Thompson, UK Stock Market Editor

Recent worries about the impact of a possible "hard landing" on Wall Street and fears that the UK economy is rapidly running out of steam were cast aside by the UK equity market. Traders preferred to focus on the notential for a series of big takeover moves and a better outlook for domestic interest rates.

Sustained mainly by another wave of takeover speculation, all the main stock market indices raced up to 1995 highs. The FT-SE 100 Index surged 31.6 to 3,376.6, its best closing level since February 18 last year. The FT-SE Mid 250 Index was overshadowed by the senior FT-SE 100 but nevertheless still managed a 15.6 improvement to 3,690.1, the highest close since last September.

Helping the momentum in London was another strong showing by Wall Street, where the Dow Jones Industrial Average shrugged off an uncertain start and hit a new peak in early trading, helped by a \$3.3bn bid for Lotus Development, the computer software company, from IBM.

The only slightly disturbing feature of the day's activity in London was a sluggish performance by UK gilts, which ended marginally lower on balance, ignoring renewed strength in US Treasury bonds.

Dealers said there had been little or no downside pressure on sterling ahead of tomorrow's meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, governor of the Bank of England, to discuss monetary

The closure of virtually all the leading European bourses, Frankfurt and Paris included, for the Whitsun hobday had a dampening effect on activity in London, where turnover totalled a low 421.5m Non-Footsie stocks sbares. accounted for 59 per cent of tha total. Customer business on Friday was worth £1.36bn.

The market bulls were tested

last Friday and came through with flying colours," said the head trader at one UK securities house. "The dangers of a rate rise on Wednesday are moderating and both London and Wall Street have regained their composure; it would not surprise me to see 3,400 on the FT-SE 100 in

the very short term," he added. The takeover speculation that has been one of the driving forces this year was very much in evidence yesterday, "Any one of a dozen potential takeover stories could burst on the scene at any minute, noted one marketmaker.

Zeneca, the pharmaceuticals group demerged from ICI two years ago, was the keenest takeover bid

Severely shaken out at the

end of last week on negative

retail news from North Amer-

Caradon rebounded strongly to

head the Footsie performance

charts. Sentiment turned sour

on Friday following a profits

business. But a number of

securities houses have recently

become more positive about

1996 retail spending, both in the UK and the US.

Caradon added 10 at 260p in

1.2m turnover and Wolseley

put on a penny at 352p. Spring

Ram closed 14 off at 394p

after a securities house was

said to have issued a sell note.

during an analysts' trip to the

US hit Arjn Wiggins Appleton and the shares fell 10% to 253p.

US arm was finding it difficult

to pass on sharp rises in paper

pulp prices, because the fax

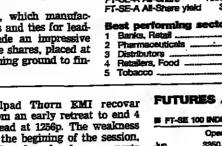
Analysts heard that Arjo's

Cautious comments made

story in the marketplace yesterday. Other rumoured corporate deals said to be bubbling included Thorn EMI Kleinwort Benson and Fisons/ Medeva.

Electrocomponent issues ontpaced the rest of the FT-SE Mid 250 constituents after posting excellent preliminary figures. Anglian Water's move to gain shareholder approval to buy back 10 per cent of its shares saw the stock price race

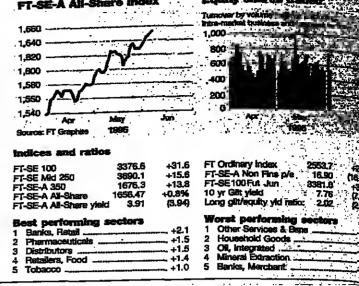
Silk Industries, which manufactures silk scarves and ties for leading retailers, made an impressive market debut, the shares, placed at 125p, quickly gaining ground to finish at 135p.



suggesting the company may be interested in buying Reed International's books division. UBS also advised investors to take profits in Thorn. A Reed International presentation is being held at S.G. Warburg tomorrow. Shares in the group A denial from Laura Ashley,

the clothing and furnishings group, that it had received a bid approach, failed to quash takeover speculation in the market. The talk followed weekend press reports that suggested a US group had made an approach. But one market analyst said vesterday. "they may be denying it hut I

Strong demand for leisure company Granada Gronp, ahead of Wednesday's interim figures, saw the shares rise 6 to



Warburg cautious on oils

Leading oll issues failed to benefit from the latest surge in the Footsie as one leading securities house took the sector off the buy list.

S.G. Warburg was telling clients that the scintillating rise in earnings growth seen by Shell Transport and BP over the past two years is unlikely to be repeated for some time.

Earnings growth, fuelled by stringent cost cutting, soaring chemicals prices and rising crude oil costs, bas been around 35 per cent per annum. Next year it could slip to as low as 5 to 7 per cent a year, analysts believe.

The enthusiasm of the house oils team has been cooling for the past few days. Yesterday it formally changed its stance on the sector from add to hold. BP closed a penny lower at 444%p, after being off 3 earlier, and Shell lost 5 at 777/ap.

Zeneca surges

Speculation of corporate activity again encompassed Zeneca, the pbarmaceuticals group, with buying in the derivatives markets fuelling the rumours. The stock was the strongest performer in the Footsie for much of the day and gained 28 at a record 992p. Earlier talk that Roche, of Switzerland, might launch a bid, or that Zeneca was interested in acquiring Pharmacia. of Sweden, was coupled with

suggestions that Zeneca might sell a large cbunk of its business. Dealers said it might dispose of its agrochemicals arm for between £2bn to £3bn, thus freeing cash to concentrate on the mainstream pharmaceuticals business.

Panmure Gordon was a strong buyer, citing the strong drug development programme. Analyst Mr Robin Gilbert said: "Zeneca probably has the best drugs pipeline of any company in the world industry at the moment. This is just a good old fashioned growth story."

Also, Monument Securities, a leading derivatives specialist. was said to have bought a large amount of Zeneca call options expiring at 1050p each in July. The trade is seen as a geared play on Zeneca sbares rising further in the short

Anglian pleases

News that Anglian Water is to become the first water com-pany to launch a share huyback scheme sent the stock sbarply ahead,

The shares gained 12 at 543p after Anglian announced that it will be seeking powers from sharebolders at its annual meeting in July to buy up to 10 per ceot of its own stock. The group also reported bumper full-year profits and a sbarp increase in the dividend, both well above market expectations, which belped to boost sentiment further.

Mr Kevin Lanwood at Smith New Court cheered both the figures and news of the share buy-back and said: "Anglian Water could return more than £200m to shareholders within the next two years."

Risewhere among water stocks, Welsh Water, with results on Friday, rose 9 to 656p after stating that it had raised its stake in ScVK, the Czech Republic's largest water and sewage treatment company, from 15.6 per cent to 35.6 per cent. Thames, which reports today, put on 2 at 508p, while Yorkshire finished 6 up at 591p ahead of preliminary figures due tomorrow.

Bank stocks continued their strong performance, reflecting the growing belief that the top of the interest rate cycle has been reached. At the start of business yesterday, the sector had outperformed the broad market by nearly 9 per cent in the past four months. Barclays ended 1914 up at 7141/2p, while National Westminster climbed 17 to 574p, Lloyds 151/4 to 6701/4p and Royal Bank of Scotland where recent selling by one leading US bedge fund has dried up - 121/2 to 4201/4p.

FINANCIAL TIMES EQUITY INDICES

		Jun 5	Jun 2	Jun 1	May 31	May 30	Yr ago	High	"Low
Ordinary	Share	2553.7	2529.1	2522.8	2507.7	2506.2	2387.8	2553,7	2238.3
Ord, div.		4.21	4,25	4,26	4.26	4.26	4.21	4.73	4.20
P/E ratio		15.91	15.77	15.73	15.88	15.87	19.08	21.33	15.73
P/E ratio		15.67	15.53	15.46	15.64	15.63	19.72	22.21	15.49
For 1998. FT Ordinar	Ordinary Share b	Share indo	date 1/7/5	ompfabon 15.	: high 271	3.6 2/02/9	4; low 49.4	26/6/40	

Ordinary Share Open 8.00	_	changes 11.00		13.00	14.00	15.00	15.00	High	Low
2524,6 2531,4	2531.9	2535,7	2541,3	2543.9	2546,4	2548,2	2549.1	2553.7	2523.7
		Jun 5	Ju	n 2	Jun 1	May :	31 M	ay 30	Yr ago
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Equity turnover (5	T(m2			61.5	1586,9	1198	3.3	952,7	764.1
Equity bargainst	•••		- 34	.321	34,115	32,2	89 3	0,872	24,102
Shares traded (m	ĐT -		- 5	41.3	775,7	536	12	675.7	341.0
*Excluding Intra-ma	lust busi	0636 and	Oversen:	untove	٠.				

		1361.5	1586,9	1198.3	952,7	764.1
Equity bargainst	-	34,321	34,115	32,289	30,872	24,102
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and carbonless paper market in which it operates is mature and margins are being squeezed

ica, building materials leader Some funds were being switched into Rexam, formerly Bowater, which is seen as the pick of the sector. The shares warning from Payless, the big US drug store and DIY advanced 12 to hit a 14-month high of 502p.

Airports group BAA moved lower on the announcement of strong results and a hetter than expected dividend, with the market appearing to take advantage of the recent strong run for the shares to switch into British Airways. BA added 11/4 at 4091/4, helped by strong May traffic figures, while BAA shed 3 to 484p.

Talk that Eurotunnel would miss out on cross-channal coach business this summer. because of safety licence delays, edged the stock down a penny to 183p amid heavy turnover in Paris, where the shares traded 4.3m.

British Steel, which topped the Footsie activity charts on Friday, was again heavily traded, racking up turnover of 9.6m as sentiment continued to see-saw. Dealers said yesterday's two-day pull was mostly the result of shift in stance at BZW which moved from buy to hold. The shares, down 2 at one stage, closed marginally higher at 173%p. Military computer systems

group Radstone Technology fell 21 to 106p following a profits warning. The company, floated last year at 125p, announced strong profits and a bumper dividend but stressed that the current year had run into problems. Components distributor Elec-

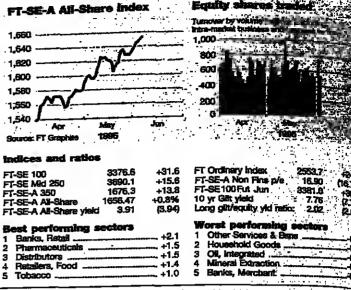
trocomponents powered ahead by 32 to 619p in the wake of strong results and an 18 per cent dividend increase. was stror Argyll Group ahead of an ana-

belpad Thorn KMI recovar from an early retreat to end 4 ahead at 1256p. The weakness at the begining of the session, followed weekend press reports

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602p, an all-time high.



FUTURES AND OPTIONS

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MARKET REPORTERS: Peter John. Joel Kibazo. Jeffrey Brown.

Calls 1,970 Pats 2,105 * Underlying index wifes. Pro

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-	F.P.	29.7	105		Do. Monthly Div	105		M5.82	-	7.0	
-	F.P.	25.2			Finsbury Worldwide	101		-	-	-	-
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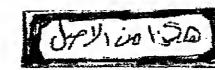
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FINANCIAL TIMES

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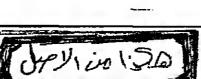
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takes Nasdaq to peak

Wall Street

The Nasdaq composite climbed past its previous record close in early trading yesterday, boosted by news that IBM. which trades on the New York Stock Exchange, had made e \$60 a share bid to buy the Nasdaq traded Lotus Development, writes Lisa Bransten in New York.

At 1 pm the Nasdaq composite, which is weighted towards the high-tech sector, was 8.58 higher at 881.55. surpassing its previous record of 879.64 set on May 23. Shortly after that record was set, the index tumbled, leading many to question whether sharp price increases posted by technology compa-nies could continue. Yesterday, the Pecific Stock Exchange index of technology sbares gained 1.5 per cent

Lotus Development surged nearly 87 per cent or \$28% at \$60% on the news. IBM shares, bowever, were down \$11/2 at \$92% by early afternoon.

Other major indices were also higher at 1 pm. The Dow Jones Industrial Average was up 24.20 to 4,468.59, The Standard & Poor's 500 rose 1.65 at 534.16, and the American Stock Exchange composite gained 1.05 at 488.89. NYSE volume was 177m shares.

The stock market derived some support from bonds, which continued to gain ground on the heels of Friday's C\$42%, up C\$%, to C\$40%,

Strength in cyclicals belped the Dow, which is beavy in cyclical companies, to outper-form other indices. The Morgan Stanley index of cyclical shares climbed 0.9 per cent, while the counterpart index of consumer shares rose just 0.06 per cent. Especially strong companies in the cyclical index were Aluminum Company of America, up \$1 at \$46, CSX, which climbed \$1% at \$73% and Hewlett-Packard, \$1% higher at

Boeing jumped 4.9 per cent or \$2% at \$61% on reports that the airplane manufacturer had won at least two-thirds of a Sobn order from the Saudi Arabian airline, Saudia.

J.P. Morgan rose 1.7 per cent or \$1% at \$73% after an analyst at Bear Stearns upgraded the rating on the US commercial

Other stocks in the Dow that posted strong gains yesterday included: Merck, up \$2 at \$49%, United Technologies, which rose \$1% at \$76% and Sears, which was \$% higher at \$56%. Kmart gained nearly 8 per cent or \$1 at \$13% on news that the retailer had completed its two-month search for a new

chief executive.

Toronto saw Seagram's share price crumbla from an early

Milan reacts to Fiat's margins

Most bourses were closed for by-elections, the composite the Whit Monday holiday.

writes Our Markets Staff.
MILAN finished little
changed, weighed upon for much of the day by disappointment at Flat's first-quarter operating margin and lower than expected 1994 dividends, announced after the market closed on Friday. The Comit index edged 0.53 down to 625.66, while the Mibtel index picked up from a low of 9.977 to

close 11 higher at 10,052. Fiat lost L90 at L6,285 as a number of domestic brokerages

downgraded the stock. Imi, the banking group, rose L235 to L10,290 and Ina, the insurer, was L23 higher at L2,285 after the government said that it would allow the use of both public offers for sale and private placements in their privatisations, to ensure stable shareholder structures.

Stet added L48 at L4,650 after the managing director said that the company's performance in the first four months of this year was better than in the same period of 1994.

MADRID enjoyed a firm government bond market, reflecting experience abroad. but this did littla for equities. where turnover was around its lows for the year at Pta13.7bn. and the general index rose 0.88

ISTANBUL jumped 4.2 per ceot after Prime Minister Mrs Tansu Ciller's conservatives made a strong showing in local index closing 2,023.34 stronger

at 50.676.44. Brokers added that sharply lower May inflation figures, although expected, also helped to encourage buyers since they could be a signal of lower rates in the Treasury's t-bill and bond auctions.

ATHENS was led higher by banking shares following estimates over the weekend of very good banking profits for the first quarter. The general index finished 10.99 or 1.2 per over of Dr3.4bn.

Block trades were reported in Papastratos, in 3,600 shares at Dr39,738 each, and in Hellenic Technodomiki, in 30,000

WARSAW rebounded 5.1 per cent after a week of falls, the Wig index gaining 387.8 at 8,065.7, but turnover stayed relatively low with a rise of 5.7 per cent to 45.6m zlotys.

The low turnover showed that many investors were still on the sidelines. Analysts thought that the market could continue to drift until company results are announced in the second half of this month, although a four-point cut in official interest rates a week ago, and subsequent cuts in bank deposit rates, should gradually increase a shift from bank accounts to stocks.

Written and edited by William

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sache & Co. and Standard & Poor's. The Indic

153.51 144.47 139.74 237.95 140.22 210.58 192.50 146.32 115.26 372.16 199.51 92.08 61.58 526.95 8567.37 179.80 65.59 186.62 262.76 278.38 196.73 126.73 264.39 142.42 187.27 201.12

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FT-SE Eurotrack 100	1375.70	1374.54	1375.20	1375.00	1375.29	1376.19	1378.34	1375.76
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FT/S&P ACTUARIES WORLD INDICES

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orth America (608) urope Ex. UK (536)

down C\$1%, at midsession as

the company completed the

acquisition of MCA but refused

to discuss individual names as

candidates to manage the

entertainment group. Before the weekend, the Hollywood

agent and powerbroker Mr

Michael Ovitz bad been strongly fancied for the role.

The TSE 300 composite index

rode the resulting weakness in

the consumer products sector with a rise of 4.70 to 4.454.50.

São Paulo rose 1.3 per cent in

light midday trade amid opti-

mism about lower house votes

this week on government pro-posals easing the state telecom-

munications and oil monopo-

lies. The Bovespa index was

532 higher at 40,197 at 1 pm in turnover of R\$132.6m (\$147m).

Analysts noted that the

amendments were likely to win

approval because the oilwork-

ers' strike, which ended last

week, had swayed public opin-

MEXICO CITY edged higher

in late morning trade after a

the start of trading had been

delayed by demonstrators pro-

testing at last year's elections in the state of Tabasco. The

IPC index was 3.74 higher at

2.037.11, with the market sup-

ported by expectations of posi-

tive trade and inflation figures

S African

gold shares

drift lower

Johannesburg finished an

uncertain session easier, with concerns about local prospects

and a low level of demand cap-

ping prices. Gold shares

drifted down, in line with

tha bullion price, while

demand for industrials was

restrained by continuing polit-

The overall index finished 1.1 higher at 5,527.9, industri-als slipped 6.7 to 6,959.8 and

the gold shares index was 21.0

Key mining stocks attracted

limited Interest after recent

lethargy, with De Beers collecting R1.25 at R95.50 and

SAB added a marginal 25

+0.94 -0.33 +0.48

+2.03 +2.69 +1.77 +1.21

+1.78 -0.23 +0.80 +1.97 +1.51

+1.02

+1.50

-1.01 +2.25 +0.52

+0.18

+0.38 +1.69

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+1.27

cents at R105.75, while

Anglos R2.50 at R203.50.

Amgold fell R9 to R297.

ical uncertainty.

softer at 1.386.8.

ion against the monopolies.

Latin America

IBM bid to buy Lotus Intervention breaks Seoul downtrend

.. and now there are complaints about government manipulation, writes John Burton

ld habits die hard for scheduled for the second half South Korea's Finance Ministry. It cannot stop intervening in the stock market, in spite of its promises about promoting financial liberalisation.

The ministry, traditionally, has intervened when share prices swing too low or too high. The recent market downturn proved no exception.

After the general share index reached a new low for the year on May 27, the government announced a package of market-boosting measures.

The government-run stock market stabilisation fund began buying shares, while finance institutions were required to become net buyers in the market. The weight of new share and bond issues

of 1995 was reduced to restore liquidity to the market, which has suffered from the flow of capital to the expansion of booming, export-oriented

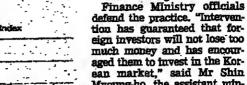
the trick, at least temporarily. The general share index rose last Friday, adding another percentage point yesterday to close at 889.04 before today's

plained about government manipulation of share prices. Officials also step in when the index is soaring.

Secial Composite Index The intervention has done

from 847.09 on May 27 to 890.08 public holiday. None the less, overseas investore have often com-

"Foreigners are perplexed. They do not see this even in



over, the measures usually prove ineffective in the long run," said Mr Richard

Samuelson, branch manager

of S.G. Warburg in Seoul. Finance Ministry officials defend the practice. "Intervention has guaranteed that foreign investors will not lose too much money and has encour-

Myoung-ho, the assistant min-ister for international finance. However, the ministry is also confronting growing domestic criticism. The chairman of the Korea securities dealers association opposed the latest intervention and urged the government to adopt a "hands off"

Even leftist public interest groups have joined the chorus against state meddling in the market. The Citizens' Coalition for Economic Justice accused the government of pushing up

share prices ahead of tough local elections later this month describing it as "sacrif-cing the stock market on the altar of political expediency". The intervention is also lead ing to policy confusion. While the Finance Ministry is urging banks to become net buyers of shares, the central bank has been telling them to invest less because of worries that the troubled banking sector is

Grapplin

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over-exposed in the market Some Finance Ministry officials suggest that their market meddling may soon be a thing of the past.

A test of their good intentions will come if the market takes another dip in the com-ing months as the government tightens the money supply to keep inflation under control

Marginal gain for Nikkei in muted region

Tokyo

The government's willingness to use public funds to help the financial industry did little for share prices, and the Nikkei index finally posted a marginal gain in technical trading, writes Emiko Terazono in

The 225 average closed 48.19 higher at 15,897.32 after mov-ing between 15,740.03 and 15.921.26. Last week's comments by Mr Masayoshi Takemura over the possible utilisation of public funds to solve the banks' bad loan problem helped stock prices in the morning. But a fall in the futures market prompted arbitrage unwinding; and concerns over institutional profit-taking around the 16,000 level also triggered selling. Volume fell from 265m

shares to 184m. Individual investors led trading, targeting speculative stocks which dominated dealing, accounting for five of the top 10 most active issues by volume.

The Topix index of all first section stocks put on 1.64 at 1,279.63 and the Nikkei 300 edged up 0.62 to 238.38, but declines led advances by 577 to 397, with 185 issues unchanged. In London the ISE/Nikkei 50 index was 0.16 firmer at 1,061.27.

ety over the Bank of Japan's Tankan, or quarterly survey of business sentiment, which is to be released on Friday. Some investors were also concerned

+5.70

+1.08 +4.07

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-3.62 +3.91

+8.93 +5.80

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Start of 1995

+8.48

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-5.3

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-3.77 +14.37

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MARKETS IN PERSPECTIVE

-3.75 +15.57

-1.95 +15.30 -11.32

+7.29 +1.25 -7.31

+12.96

+11.20

-2.54

-0.58 -23.74

+3.52

+8.80

+7.39

+16.76

-0.10

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+3.48 +6.64

+2.55

+2.20

+2.04 -1.67 +1.81

+3.39 +5.32 +2.85 +2.87

-3.39

+13.96 -5.38 +15.99

-1.00

+11.06

+4.87

+2.38

-2.22

+0.53

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107.55 101.05 134.98 96.16 92.31 114.83 90.77 139.65 92.65 58.59

122.93 143,83 100.89 104.40 208.70 155,74 136,80 114.58 276,96 119.22 410.30 184.05 80.08 183.65 303.82 253.90 108.08 193.21 145.12 128.31 159.63 159.64

147.94 139.01 185.67 119.52 126.98 157.95 124.96 192.10 127.45

92.16 117.15 212.97 135.49 229.20 120.70

that the settlement of June futures and options contracts at the end of the week might affect share prices.

Maruyama, an agricultural sprayer manufacturer, was the day's most active issue, rising by its daily limit of Y100 to Y664 on individual bnying. Daido Steal Sheet also advanced by its limit of Y100 to Y940, while Takara Shuzo, a distilled spirit manufacturer, climbed Y46 to Y714 on reports that it had developed a new gene therapy method with a US university team.

Some banks were supported by short-covering following last week's government announcement. Industrial Bank of Japan rose Y40 to Y2,610, as did Mitsubishi Bank, to Y2,150. Sakura Bank eased

Y10 to Y1,020 on profit-taking. Hopes that public funds will also be extended to the property market, to help banks with their property collateral on bad loans, lifted real estate companies. Mitsui Fudosan gained Y12 at Y977 and Mitsubishi Estate Y26 at Y969. Profit-taking weakened high-

technology stocks. Toshiba dipped Y2 to Y528, while Mat-sushita Electric Industrial retreated Y20 to Y1,310 and TDK shed Y100 to Y3,700. In Osaka, the OSE average

declined 45.24 to 17,030.28 in volume of 7m shares.

Roundup

Some Pacific Rim markets remained at highs for the year, although activity was muted throughout mncb of the

KUALA LUMPUR attained a new peak for the year, boosted by further buying of a clutch of blue chip stocks. The composite index ended 6.96 firmer at 1.085.04 in volume of 155m shares, after 171m on Friday. Malaysian Airline System slipped 25 cents to M\$8.30, edding to Friday's 40-cent loss, after posting lower than expec-

ted earnings. Wembley Industries was the most active issue, appreciating 62 cents to MSA.44 in volume of 6.7m shares.

BANGKOK posted another year's high on concentrated buying of property development issues, but gains were limited by profit-taking in finance, banking and telecommunications. The SET index put on 1.38 at 1,408.26 in heavy volume of 144.7m shares.

The property development sector, increasingly attractive in the wake of falling domestic interest rates, rose 2.5 per cent. MANILA finished at a high

for the year as renewed foreign demand late in the day overcame early besitancy which reflected Wall Street's weakness on Friday.

The composite index added 15.87 at 2,840.54 in voluma of

Philippina National Bank was to the fore, gaining 3.7 per cent at 352.50 pesos. Among second liners, ABS-CBN advanced 4.8 per cent to 87.50 peros, Sime Darby 10 per cent to 22 pesos and Waterfront 7.8 per cent to 3.50 pesos.

SHENZHEN's domestic A shares tumbled on rumours that this year's quota for new share listings would be much larger than expected. The A index lost 3.24 or 2.8 per cent at 136.52 as turnover dropped to Yn210.2m from Yn257.8m. while the hard currency B index eased 0.26 to 67.19. SHANGHAI'S B index shed 0.687 or 1.2 per cent to 55.610 as investors cleared part of their positions in expectation of new B share issues. The A index, sharply lower over the last fortnight, fell a further 26.804 or 3.6 per cent to 718.278. SYDNEY edged forward,

with rallying bonds stemming any negative reaction to Friday's trend on Wall Street. The All Ordinaries index finished 5.0 higher at 2,011.7.

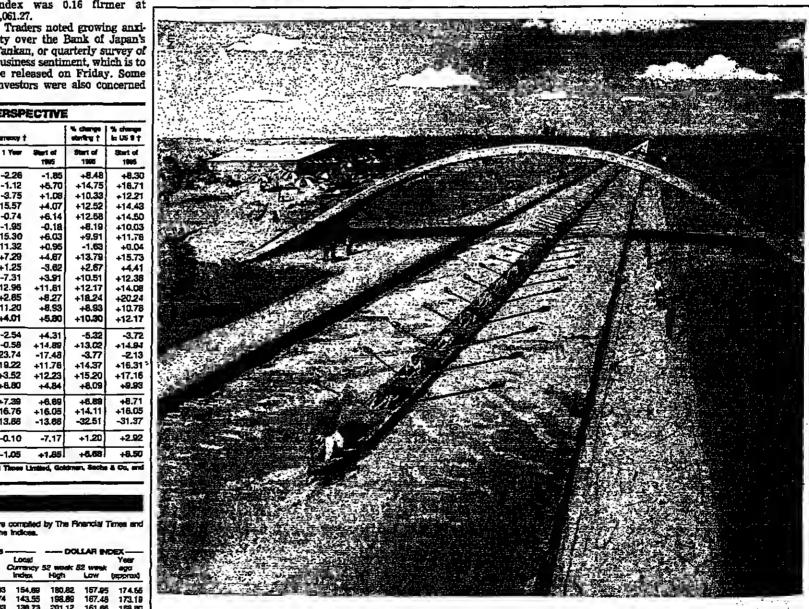
A\$7.58 and Pacific Dunlop continued its recovery, rising 17 cents to A\$3.02 after dismissing concerns about its Telectronics

JAKARTA finished marginally higher in active trade on buying of third-line property related stocks, but profit-taking following last week's sharp rise limited tha gains. The composite index was 3.84 ahead at 497.26.

SINGAPORE was firmer, but in thin trade with many retail and institutional buyers absent. Tha Straits Times Industrial index rose 9.52 to 2,218.03 in volume of 96.2m shares, while the UOB OTC index, tracking mostly Malaysian stocks, was up 10.20 at 1.160.53.

HONG KONG finished flat after investors sold into the morning's 116-point rally to taka profits. The Hang Seng index closed 10.63 higher at 9,570.37 in turnover of HK\$5.5bn. One analyst commented that a sell-off of index futures, which began just before lunchtime, had helped to bring blus chips back.

COLOMBO broke out of its rut to close firmer on institutional buying of blue chips. The all-share index moved ahead 7.10 to 715.51.



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COLUMBO INSE

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FINANCIAL TIMES SURVEY

FOREIGN EXCHANGE

Tuesday June 6 1995

Grappling with the problems of maturity

After 15 years of growth, dealers are coming to terms with a change in the foreign exchange business. Philip Gawith looks at a market in transition

Superficially, it is business as usual in the foreign exchange markets. Central banks have been intervening to support the dollar; and investors remain as confused as ever about the outlook for the world's main trading and

reserve currency.
Scratch a little deeper. though, and you find an industry in transition. After 15 years of uninterrupted growth cul-minating in the halcyon 1992/3 period, 1994 was the year when the music stopped for the foreign exchange business. The sharp reversal in world bond markets, and the steep decline m the dollar, inflicted heavy losses on investors, with the fall-out being clearly felt in the

foreign exchange market. Profits fell sharply from the giddy levels of 1992 and 1993, and the fall-out is still very much affecting the market today. On a day-to-day level, this is clearly evident in the deterioration in liquidity - the ability to transact business without significantly moving the price - across a broad

range of currencies.
At another level, it has raised the question of whether foreign exchange is now a mature industry, with senior industry figures speculating privately that it may be a market whose best years are behind it

Julian Simmonds, head of global foreign exchange at Citibank in London, is one who believes there has been a permanent change" in the waybusiness is being done. I feel that I am managing a business in transition," he says.

Trends in the market, consuch as capital adequacy initia-

and the second second second second

tatives, mean that hanks are forced to worry more about the costs and returns of their foreign exchange business, and not only about revenues and profits. In other words, there is a drive towards a better qual-

These short- and long-term perspectives are intimately intertwined. The drying up of liquidity is directly related to the fall in industry profits last year, which, in turn, is the reason why people are wondering about what sort of future the industry faces.

One of the results of lower profits is that second-tier banks have had to cut back their foreign exchange activities. Regional banks, for example, which were tempted to expand their activities in 1992/ 93 on the back of buoyant asset markets and booming foreign exchange revenues, have been forced to return to their knit-

. US investment banks, which aet up sizeable foreign exchange desks to service the large flow of US funds abroad, have also been forced to re-assess their positions. Phillipe Jordan, vice-president at Daiwa Securities in New York. says the "rise and fall of the Wall Street foreign exchange desk" correlates perfectly with the declining rate of increase in the growth of US offshore funds.

Lower profits have also dampened the risk appetite within the industry. Position fakers, such as hedge funds and the proprietary desks of banks, have pulled in their horns. Brace Young, managing director of fixed income and pled with more regulation, foreign exchange at Goldman Sachs in London; explains: "All

trading is subject to the oppor-tunity of the market. We don't see the opportunities to take

significant amounts of risk." There is a danger that this process can become self-perpetuating. Lack of liquidity has contributed to some of the exceptional volatility seen in the market this year. But if, within this volatility, traders cannot see a trend, they become increasingly risk averse, holding smaller posttions for shorter periods. This has clearly been the case at times this year, and if day traders in the interbank market become mora cautious, this simply serves as a further drain on liquidity, making prices more prone to volatile movement.

Patchy liquidity and price volatility need to be kept in perspective. First, there is some dispute whether 1996 has witnessed anything out of the ordinary in this regard. Second, even if it has, many people welcome it. Chris Deuters, head of global foreign exchange at Lehman Brothers in London, says: "Liquidity gaps shouldn't frighten people who have been in these markets for some years." Indeed, many banks report that March was one of the best months the industry has ever experienced.

While some banks are concerned about recent volatility, suggesting that prices reflect the power of a few investors rather than underlying fundamentals, older hands give this analysis short shrift. David Puth, head of foreign exchange at Chemical Bank in New York, comments: "Nobody has ever forced me to make a price to anybody. You don't have to play at the \$1.000 blackjack

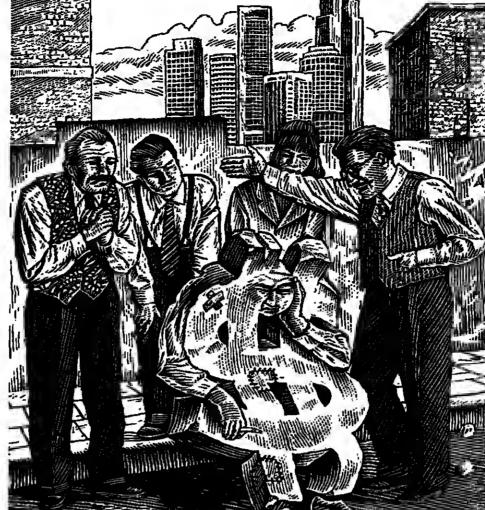


table if you don't want to," Finally, there is always liquidity available - it is just a question of "at what price". Some of the squeals emanating from the industry sound very much like people who have

failed to price liquidity correctly - the result, probably, of too many banks fighting for too few scraps of business, and pricing unrealistically as a Klaus Said, head of foreign exchange at JP Morgan in New York, notes: "If you are

stnpid enough to make five point prices when the market is gapping by 50 basis points.

you deserve to be punished." Certainly one of the factors contributing to the crimping of margins has been the dash for customer business by those banks previously dependent on proprietary profits, which are now more difficult to come by. If solemn homages to the customer are anything to go by, then the foreign exchange industry cannot be accused of shirking its responsibilities as

a service industry.

By all accounts, these efforts are well directed. The recent Euromoney annual survey of foreign exchange customers found "relationship" to be the single most important factor in choosing a bank. So, even if foreign exchange is a commodity business, customers clearly value a customised service. and the ability to have someone to turn to when the market environment becomes diffi-

But while customer service

to say customers are having an easy time of it. Barely a day s without some large multinational company lamenting the impact on its performance of exchange rate volatility. Diminished liquidity and heightened volatility also make business more complicated and

expensive to transact. In illiquid markets, it may take longer to get business done, while the cost of insuring against volatility obviously rises as volatility increases. Of some comfort is the fact that product innovation, par-

may be improving, this is not

ticularly in areas such as exotic options, allow customers much more sophisticated tools for managing their exchange rate exposure than were previously available. Despite some of the adverse publicity surrounding derivative products, users have not been frightened off and options are probably the fastest growing part of the foreign exchange industry.

If new products is one area of growth, new markets is another. As developing market ecocomies grow, so, too, does their integration into global foreign exchange markets. Not all of them like it - witness the efforts of Asia-Pacific countries to establish a foreign exchange stabilisation fund, in an attempt to counteract exchange rate fluctuations which they judge do not reflect economic fundamentals.

Nor is the process without hiccups. The Mexican crisis earlier this year, triggered by the devaluation of the peso in December, and the contagion which spread to other emerging markets, was a reminder of the risks associated in this area. When all the caveats are uttered, though, trade in these exotic or developing currencies be they the Mexican peso. the Malaysian ringgit or the South African rand - can only

be on an upward curve. Another area of change for the business lies in the field of broking, with electronic broking systems such as EBS and Reuters Dealing 2000-2 making significant inroads into the market. Talk of the demise of voice-brokers is misplaced, but it is difficult not to trace some of the staff cuts announced in

IN THIS SURVEY

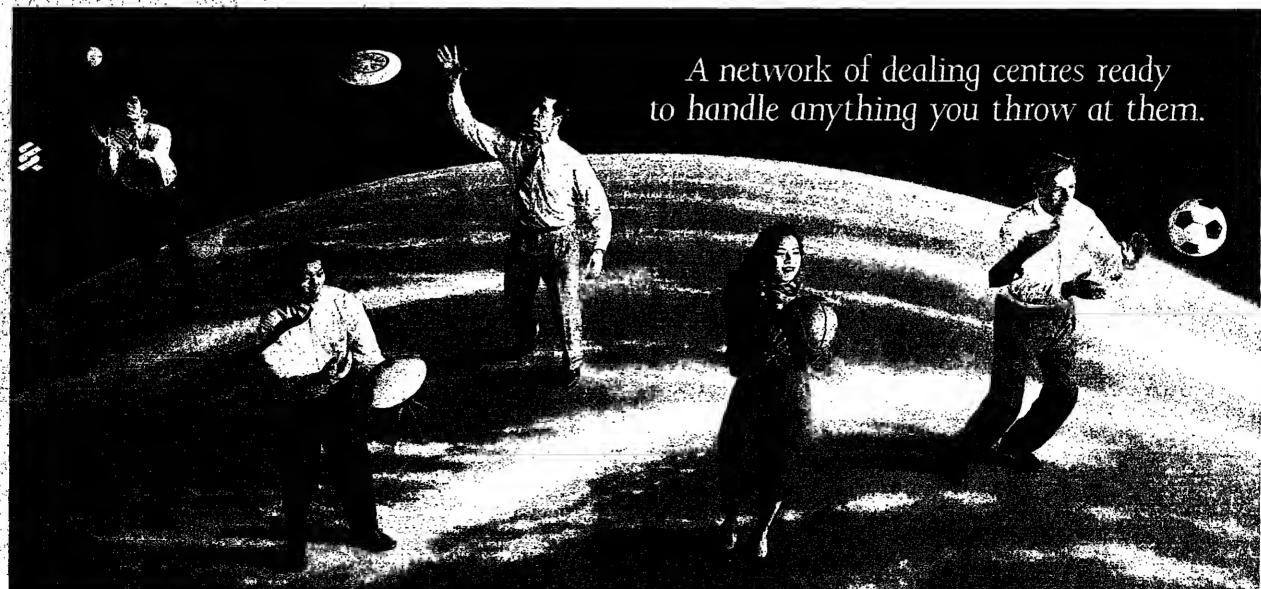
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- Counting the cost abroad I ELECTRONIC BROKING: Voice of experience fades

recent months to the advent of

electronic broking. Behind the minutiae of industry issues lie some intriguing developments which will bear heavily on the industry's fortunes. One concerns the move towards monetary union and a single currency in Europe. Policy errors in this process provided foreign exchange dealers with profits which were as easy as they were enormous in 1992/3.

Already they are wringing their hands in eager anticipation as the timetable for a single currency moves up the policy agenda. Again there is a whiff in the air suggesting that politicians are seeking to impose timetables which markets believe are inconsistent with underlying economic fundamentals. While past performance makes such scepticism difficult to fault, it may be that markets have not properly taken into account the political will which exists in leading

Continued on page 2



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me Philip Gawith

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Quest for a spot-on forecast

forecasting foreign exchange rate movements bas proved almost as fruitless as the alchemists' medieval quest for a formula for turning lead into

A substantial problem for economists and analysts is that exchange rates are determined by a host of factors, which sometimes point in the same direction but more usually counteract each other.

According to Avinash Peraud, currency strategist at JP Morgan in London, there are three main flows affecting the markets - trade, money market and portfolio capital.

If trade flows are moving the market, then competitiveness is the most important factor; if money market flows are dominating, the key is interest rate differentials; if portfolio capital tion of bond and equity mar-

Over the past two years, portfolio capital moves bave dominated the market, to the confusion of analysts who tend to concentrate on economic factors, such as inflation, and on interest rate differentials.

One of the oldest ways of examining the competitiveness issue is purchasing power parity (PPP) theory which states, essentially, that a basket of goods in one country should cost the same as the identical basket of goods in another nation. Movements in exchange rates, therefore, will be determined by inflation levels; if country A has a higher inflation rate than country B.

depreciate against the latter. If consumers could instantly jet around the world, buying apples in Andorra and yachts in Zaire, PPP theory might hold good. in practice, many goods and services are not traded across national boundaries, either because of cost or simply differences in national

then the former's currency will

Economists therefore argue on whether to calculate PPP levels using producer prices, unit labour costs or some other indicator. Whichever way it is measured, bowever, the most important exchange rates, \$/ DM and \$/Y, have consistently overshot or undershot their perceived PPP levels, leading analysts to look for other

Foreign exchange may be the

largeet and most liquid of

financial markets, but the

same cannot be said for trans-

parency. When it comes to the

two most basic of benchmarks,

turnover and profit, the fig-

The Bank of Japan provides

a daily turnover figure for

what is happening in Tokyo,

bnt similar figures are not

available elsewhere. To esti-

mate industry activity, compa-

nies need to extrapolate from

their own experience, or wait

for the triennial Bank for

International Settlements' sur-

The last BIS survey, in April

1992, found that daily net

turnover was around \$880bn a

day. The latest survey took

place in April 1995, but results

Everyone agrees that March

1995 was an exceptional

month, both in terms of vol-

ume and profitability - the

best ever, or close to the best.

will only be known in 1996.

vey of the industry.

ures are not easy to find.

A related issue is the balance of payments. A trade deficit is imbalance in the economy and is a sign that domestic demand is too high. Under the gold standard, there was an automatic mechanism through which demand was reduced to hring the economy back into

Floating exchange rates allow countries to make the adjustment in terms of currency depreciation. This should make the country's exports more attractive, helping to remedy the trade problem, but it also increases the price of imports. If monetary policy accommodates those higher import prices, then the competitiveness advantage of devaluation quickly dissipates. Countries can get trapped in a cycle of depreciation and infla-

However, the US has been able to run a persistent balance of payments deficit and suffer steady dollar depreciation, without substantial infla-

when it is necessary. The determinants of portfolio capital flows are hard to predict. A persistent trade deficit,

lessly to eliminate inflation

RUGER ETTLE

ACTUALLY I DON'T MEED TO

WORRY ABOUT EXCHANGE

CROSS RATES ANY MORE-

I'VE WORKED OUT HOW TO

TURN BASE METAL INTO GOLD

such as that run by the US, is a consequence of a shortfall of domestic savings while the Japanese current account sur-

Purchasing power parity theory states that a basket of goods in one country should cost the same as the identical basket of goods in another nation

Who is making the money? Philip Gawith draws his conclusions

Figuring out the profits

tionary consequences, because trade forms a relatively small proportion of its GDP.

One way of reducing demand, and thereby eliminating a trade deficit, is, of course, to increase interest rates. Such a strategy can also support a currency, by attracting money market flows, but the effect is by no means certain. If interest rates are raised in such a way as to damage the economy, and the prospects for corporate profits, portfolio capital may fly out quicker than money market funds can flow m.

Similarly, markets may decide that the government will simply not have the stomach to raise interest rates sufficiently to deal with the problem. This was the dilemma faced by the UK in 1992, when traders doubted that the government would be willing to defend the pound with higher rates in the teeth of a reces-

Conversely, Germany can get away with low interest rates because the markets believe the Bundesbank will act ruth-

head of global foreign exchange at Lehman Brothers.

reckons that if the BIS survey

had been conducted in March.

turnover may have been as

bigh as \$2,000bn a day, but

doubts whether the April fig-

Others are more ambitious. Klans Said, bead of foreign

exchange at JP Morgan in New

York, comments: "We think It

[the daily April turnover fig-

ure] will start with a two.

Some say three. People just don't know what is going on."

More typical is the opinion of

Julian Simmonds, head of for-

eign exchange at Citibank in

London, who expects a slow-down in the rate of growth in

turnover (from 100 per cent in

1989, to 42 per cent in 1992)

perhaps to something in the

When it comes to profits,

comparing like with like is

very difficult since there is lit-

15-30 per cent range in 1995.

ure will be above \$1,400bn.

plus is a function of high savings rates.

into a debtor nation and Japan into the world's largest creditor and means that the fate of investment decisions made by insurance companies

portfolio managers. The recent Mexican crisis has rammed home that if countries are funding their deficits with short-term capital (or in liquid equity markets), the results of a loss of confidence can be devastating on the currency.

which have relied on direct investment in factories and businesses to fund their deficits have proved much less vulnerable: it is simply far less easy to withdraw such capital.

This has transformed the US

the dollar can depend on Japanese pension funds and Similarly, current account deficits in emerging economies such as Mexico made the domestic currency very dependent on the attitudes of US

Countries in south-east Asia

One of the main themes of the past year has been the shift in attitude towards countries

1994 was a much more diffi-

cult year than the halcyon

years of 1992/3 when roaring

bond markets and crises in the

ERM made things seem easy.

The tone was set by the col-

lapse in bond prices, which

destroyed capital and inhib-

ited risk appetite, with spin-

The conventional wisdom is

that those who relied most on

proprietary trading, or posi-

tion taking, for their profits,

were hardest hit. This gets

some support from the perfor-

mance of Bankers Trust.

where foreign exchange trad-

ing revenue fell from \$191m in

1993 to a \$54m loss in 1994.

But not all investment banks

performed this badly. At Mor-

gan Stanley, foreign exchange

revennes fell to \$153m from

\$205m in 1993. At JP Morgan

revenues declined to \$131m

Goldman Sachs is a private

from \$179m in 1993.

offs in foreign exchange.

with large budget deficits. Often, such governments have to rely on foreign investors to fund their deficits - but portfolio managers have become increasingly concerned that debts will be subject to creeping default (via persistent devaluations) or indeed out-

right non-payment. From all this, one can create a composite picture of a weak currency: it belongs to a country with high inflation, debts and a trade deficit, where invectors lack confidence in the government's ability to tackle problems.

Chartists, however, argue that such fundamental issues do not determine market movements in the short term, and have recently been receiving support from the academic community.

Academics who have studied

the foreign exchange markets have found that they do not meet the definition of an efficient market, in which new information is instantly incorporated in prices.

Two particular inefficiencies appear to affect the market. and create opportunities for profit. The first is that those involved in the market have different views and motives, in other words they are heteroge-

Bank dealers may have a time horizon of just 10 minutes; corporate treasurers of 12 months. Central banks are not trying to make a profit but to support a particular currency.

A second market trait is that volatility persists. A traumatic market event will be followed by a period of substantial price movements, rather as an earthquake is followed by aftershocks. These properties of the mar-

ket are described in academic jargon as heterogeneous autoregressive conditional heteroskedasticity - or Harch for This analysis offers the pros-

pect of models which use Harch to predict short-term exchange rate movements. Models have been developed by Olsen & Associates of Switzerland with mixed results in practice so far.

But Harch is likely to be the subject of much further analysis and examination by foreign exchange practitioners over the next few years.

managing director, fixed

income and foreign exchange

at Goldman in London, did

reveal recently that the vol-

ume of client business in Loo-

don had grown by 120 per cent

over the past two years, (with

options and exotic derivative

volumes up by 100 per cent

and 70 per cent respectively).

Looking at the large money

centre banks, foreign

exchange revenues at Chemi-

cal Bank fell to \$152m from

\$302m, although the 1994 fig-

are included a one-off \$70m

loss on a rogue Mexican peso

transaction conducted by one

of its traders. At Citicorp,

where trading figures are reported as rounded numbers.

foreign exchange income fell

to \$600m from \$1bn in 1993. At

the HSBC group, foreign exchange profits fell by only 9

per cent to £343m from £377m

in 1993, while at NatWest Mar-

kets, foreign exchange profits

Is the dollar's reserve currency status under threat? asks Philip Gawith

Down but definitely not out

The long running decline in the value of the dollar, which accelerated in the first quarter of this year, has raised the question of whether its reserve currency status has been com-

Historians have started to draw comparisons with the British experience after the second world war. What is happening with the dollar and the US now is reminiscent of sterling's decline as the premier reserve currency which took place in tandem with the UK's post-war retreat as a leading

Certainly, when investors were running for cover in the first quarter, they did not seek refuge in the dollar. It was the D-Mark, yen and Swiss franc which were perceived as the world's safe-haven currencles. If central hanks reach the same conclusion, they are likely to want to bold fewer of their reserves in dollars.

This line of thinking gathered force recently when Asian central banks were frequently cited as heavy sellers of dollars. Talk of diversification out of dollars by these banks, where some of the largest growth in foreign exchange reserves is taking place, was cited as a potential long-term downward pressure on the dol-

A recent example was the announcement by China that it had reduced the proportion of dollars in its reserves in favour of the ven and stronger European currencies. The central bank said the non-US dollar component of China's reserves, which stand at about \$58bn, had increased to 25 per cent from 10 per cent at the end of 1994. Hong Kong and Australia have admitted that they have slightly lower dollar holdings. and market talk is that countries such as Taiwan, Indon-

esia and Singapore have also decreased their dollar holdings. It can, of course, be argued that the dollar's decline as a

reserve currency is inevitable: it still accounts for more than 60 per cent of foreign exchange erves and roughly half of global private financial wealth. while around two-thirds of world trade is invoiced in dollars. By contrast, the US accounts for only one fifth of world output and 14 per cent of

Alvin (A.C.) Moore of Dunvegan Associates, a Californiabased investment management firm, explains this disproportionate role: "The US has remained the world's policeman and, thus, has been the receiver of monies seeking safety." But, he adds, in a postcold war world, increased German and Japanese confidence in the use of their currencies "creates the potential for world currency holdings to more closely approximate national

While there is little dispute among central banks that this process of diversification is under way - at a "modest to moderate" rate, in the words of one hanker - there is no sense of crisis, Indeed, reports of the dollar's demise appear somewhat exaggerated. Up-to-date foreign reserve figures are not available, but IMF figures from 1988-93 show no evidence of any secular trend away from the dollar. In 1993, 61.4 per cent of world central bank reserves were held in dollars, down

up from 57.5 per cent in 1990. Over a longer period the trend is a bit clearer. Between 1976 and 1993 the position of industrialised country reserves held in dollars dropped from 87

from 64.6 per cent in 1988, but

per cent to 60,7 per cent. More recently, the custodial holdings of dollars at the New

York Federal Reserve - which reflects the amount of US securities held on custody for other central banks - has risen sharply from around \$410bn at the beginning of the year to near \$450bn at the beginning of May. This is only a slice of the picture; it does not mean that the same process is happening at all central banks, but it does testify to continued willingness

to hold dollars. Asian central hanks could have three possible reason for selling their dollar holdings: to make a one-off stock adjustment; to adjust a mismatch between liabilities (loans) in yen, with revenues in dollars: or to adjust the hedging ratio of their dollar assets

There is no doubt that some Asian countries have built up large dollar balances through achieving long-running balance of payments surpluses. At the same time, much of their financing will have been done in yen. It appears that a significant nortion of these liabilities was unhedged, in which case these banks would have suffered from the sharp rise in the yen. Against this backdrop, it would not be unusual for them to re-appraise their reserve

obody in Washington is particularly surprised by this trend. As one senior financial official commented: "We had 100 per cent market share et one point. Now we have some competition." This is not to say that a decline in reserve currency status does not matter. As another Washington policy-maker commented; "You are talking about the perceived value of my country's only

It is not only a matter of pride or status, Around \$250bm are held abroad. A back-of the- further."

that, assuming this money could earn 6 per cent interes in the US, the Treasury is saved \$150n a year by foreigners' readiness to hold dollars, it also probably saves the Treesury a few basis points in hind ing costs - real money when the national debt is \$4,000hn. Other benefits include the

fact that US companies benefit from having their currency as the international medium of exchange, and from being able to borrow in dollars. There is also an intangible psychological benefit in having your money accepted everywhe Whatever the extent of the decline, there are good reasons for assuming the dollar will maintain its pre-eminent status. Except in Europe, where

the D-Mark is the main currency for foreign exchange intervention, the dollar is the primary tool most central banks need to influence the value of their currencies. Most currencies are quoted against the dollar, so it is the natural medium of intervention. A currency's suitability for

reserve purposes is also a function of the sophistication and liquidity of its domestic capital markets. It is more likely to acquire reserve status if it, and similarly denominated short-term securities, are easy to buy and sell. In this respect US capital markets are unrivalled in their breadth and depth (it is also on this point where the analogy with post-war Britain breaks down. The UK did not, in the 1960s and 1970s, have capital markets equivalent to those in the US now.)

It is for these reasons that one central bank observer conof dollar-held reserves being cut back from large to less, but it is hard to see it going much

EUROPEAN MONETARY UNION: Lionel Barber discusses the issues

The master plan takes shape

Despite widespread scepticism bordering on indifference in the foreign exchange markets. It is time to report that preparations for the introduction of a single European currency by the end of the century have begun in earnest. Inside the Frankfurt-based

European Monetary Institute. the embryonic European central bank, dozens of specialists are working on a "master plan" which sets out in painstaking detail the technical steps needed to move to economic and monetary union.

In Brussels, the European Commission has just unveiled a discussion paper on Emu, an exercise geared as much to preparing public opinion as to spelling out the options and timetable for the introduction of future Euro-notes and coins, probably in the early part of the next decade.

The Commission paper is to be discussed at this month's Ruropean summit in Cannes. with a view to an agreement on the name of the single currency some time over the next 12 months. (The Germans are not keen on the French-sounding Ecu, though Chancellor Kohl is said to be willing to support the franc or franken because it sounds like the ultra-reliable Swiss currency). All this activity points to a revival in momentum behind

Emu which appeared unimaginable 18 months ago, when a succession of currency crises triggered the virtual collapse of Europe's exchange rate mechanism. True, the ohsta-cles to Emu remain daunting, hut it may be unwise to take too short-term a view of a project which still enjoys the long-term commitment of Europe's political leaders, with

the exception of the British The economic arguments in favour of Emu are based on the bebef that it would boost the efficiency of the single European market which has largely eliminated the barriers to the freedom of movement of goods. services and capital. Cross-border trade and investment would become easier as exchange rate fluctuations disappeared in theory, the area covered by Emn would turn into a vast domestic market free of competitive devalua-

The 1991 Maastricht treaty set out a timetable for Emu by 1997 by the earliest, or at the latest by January 1, 1999. Countries joining Emo must have similarly low inflation levels, long-term interest rates, and exchange rate stability. The most testing criteria are the fiscal targets, though the wording in the treaty leaves room for interpretation on how

strictly they will be applied. Under Maastricht, general government borrowing is supposed to be 3 per cent of GDP. But the treaty offers two letouts: if the ratio has declined "substantially and continuously", or if it is "exceptional and temporary". On government debt, the treaty establishes a target of 60 per cent to GDP; but it also leaves open the door to laggards who can show that the ratio is "sufficiently diminishing and approaching (60 per cent) at a

satisfactory pace". Between 1992-3, the foreign exchange markets exploited the ambiguities in the treaty and the strains caused by economic recession, singling out weaker EU currencies for attack. Sterling and the Italian lira were forced to depart the ERM, while the Spanish peseta and the Portuguese escudo devalued several times. Jim O'Neill, head of global research at Swiss Bank, argues that the same experience will he repeated if Brussels tries to force the pace on Emu.

Mr O'Neill says attention will focus on the Belgian franc and the French franc, both of which are putative members of a hard-currency club built around the D-Mark. Though the Belgian franc has been remarkably stable since the crisis of 1992-93, questions remain about Belgium'e national debt which remains twice the 60 per cent level set out in Maastricht. "The debt would be a credit risk within

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the Emu core." says Mr O'Neill, "it would be like a bad savings and loan in the US."

Michael Burke, an economist Citibank in London, points to similar doubts about the sustainability of France's "franc fort" policy. The chief concern is how newly-elected President Chirac can square his campaign pledge to reduce unemployment with his promise to reduce the budget deficit and maintain a tough monetary policy in order to meet the Maastricht criteria in 1999. Mr Burke points to a second weak spot: the strains on French exports caused by the weakness of the dollar, sterling and, equally important, the competitive devaluations inside Spain and Italy, both principal trad-

ing partners of France. Despite these uncertainties, the Commission and the EMI are working hard to resolve all technical obstacles hy 1997. This would allow a political decision on which of the 15 EU member states qualify for Emu in 1997, in the unlikely event that the required majority constitutes itself. The more convincing date for lift-off is January 1, 1999. This would allow further fiscal consolidation. with the extra advantage that those meeting the criteria can go ahead, with or without a majority.

Such a timetable would suggest a decision on Emu some time between December 1997

eral election but before the next German national election. The snag is the proposed delay of up to 12 months between the political decision to set up the European central bank and the economic decision to lock rates. The unanimous view among experts and market operators is that the delay could encourage market speculation against participating

Central bank governors are seeking to create some defence mechanisms, but in the world of free capital flows it is by no means obvious what can be done. One lesson from the last two years is that the half-way house of fixed but adjustable rates inside the old ERM is all too easily blown down by the financial markets.

A second issue is that the creation of a Franco-German led Emu could encourage currency instability among those countries not strong enough to participate. The relationship between the "inner core" and the periphery of weaker currencies could prove divisive; it may even require new political arrangements within the European Union.

Yet the commitment to press ahead with Emu remains strong. Jacques Santer; president of the European Commission, considers it a test of the Union's credibility. Whatever the unease among the German public about giving up the D-Mark, Chancellor Kohl remains convinced that Emu is part of his life's work to anchor Germany in a united Europe. The new Gaullist government seems as convinced as its Socialist predecessors that the pain of a hard franc policy is worth the gain of a European central bank which would break the hegemony of the Bundesbank over European monetary policy.

To paraphrase former UK prime minister Margaret Thatcher who remains one of Emu's biggest sceptics: there is no alternative, at least for those Europeans who hold the

Grappling with problems of maturity

Continued from page 1

European Union member states to push for a single cur-

Certainly, further tremors in the exchange rate mechanism can be expected in the next few years. But the spectacle of central banks drawing a line in the sand, and attempting to defend it against speculators, à la 1992/3, seems most unlikely. The widening of the ERM divergence bands to 15 per cent has been successful in largely removing such set-piece currency skirmishes.

It is not only in Europe that central banks have learned their lessons. Within the forum of the G7 industrialised nations too, there is clearly less appe-tite for tangling with the markets. The belief thet politicians can decide the direction of exchange rates is clearly not what it was at the time of the Plaza accord in 1985, when the G7 co-operation was effective in helping reduce the value of the dollar from around DM3.50

to DM1.80. Partly this reflects their diminished power in the face of hnge global capital flows,

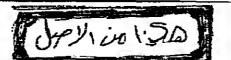
partly it reflects a philosophi-cal shift in favour of markets, but partly it also reflects the fact that the underlying political consensus within the G7, to take concerted action to move exchange rates, simply does not exist. "The G7 is talking about managing divergence, rather than aspiring to convergence," says Mr Jordan, of Daiwa Securities.

If central banks have less power in relation to markets. the balance of power within central banks is also shifting. A significant portion of the growth in central bank foreign

exchange reserves in recent years has come from the high growth Pacific rim countries. When these countries start selling dollars, as they have done in 1995, then the ability of the G7 to organise a stronger dollar is clearly even further

The long-term effects of these rumblings in the bowels of the foreign exchange markets remain unclear, but it is a fair bet that in the years ahead, the cast of the world's main traded currencies, and their values, will not be the





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How Ou

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that "something must be done"

tend to be seen more in terms

of a rising yen or of a strength-

Whether these pleas to

Washington are well directed

is another matter. It is far from

clear whether the US authori-

ties are particularly troubled about the current state of the

dollar. Even if they are, it is

not clear if there is much they

can do, at least so far as the

Richard Koo, an influential

economist at the Nomura

Research Institute in Tokyo, is

one who belongs to this school.

"The strong yen is mada in Japan almost 100 per cent," he

claims. "The US is basically

powerless to affect the \$/yen

This would appear to be

borne out by the events of the

past 18 months, where protes-

tations about favouring a

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From strength to strength

hen the dollar falls, as it has done for most of the past year, pleas dent down, coupled with seven impact on the exchange rate. The Japanese, hy contrast,

pour into Washington DC, for the situation of the president, are very worried about the Congress and the Federal strong yen. Indeed, as the yen has appreciated inexorably Even when the dollar is in against the dollar, from Y115 in January last year, to Y79.75, the shricks of anguish from decline, it remains the world's largest trading and reserve business people, bankers and currency. Events therefore politicians have become ever of a falling dollar than in terms more frequent.

What is more, Japan, has the ability to arrest the trend in the dollar/yen rate. Unfortunately, according to Mr Koo, the political classes have not properly understood the problem, and hence have falled to respond *s*uitably.

The most important cause of

the appreciation of the yen is the country's success as an exporter. This creates an enormous current account surplus with the rest of the world -\$129.3bn in 1994 (and an average of around \$90bn for each of the four previous years). The companies that earn these dollars ultimately require yen cash to pay domestic workers suppliers and sharebolders, so they are a structural source of dollar selling. Unlike speculators or investors, they cannot change and become dollar buy-

increases in interest rates. appear to have had a negligible

YEN: the rise in Japan's currency looks set to continue, says Philip Gawith

Against the dollar (Yen per 5)

In the past, that surplus was counterbalanced by net exports of long-term capital in two in companies and property overseas, and purchases of foreign stocks, bonds and other

investments. Until 1990, the capital outflow was roughly equivalent to the current account surplus, with Japanese investors happy to buy foreign companies and

securities. In the 1990s, however, a number of important factors changed, making overseas investment a lot less attractive to Japanese inves-

■ First, Japanese investors suffered huge foreign exchange losses: \$474bn, Mr Koo estimates, at Y95, or \$5-600bn at Second, the collapse of asset

prices in the 1990s removed the

recession, the type of fiscal

stringency being advocated by

Republicans in Congress will

be much harder to implement.

As a result, structural eco-

nomic problems, such as the

dollar recovery looks a lot flim-

sier than it did only a week

capital gains on stocks, and other assets such as land, which fund managers enjoyed in the 1980s. With their ability to absorb

losses on their foreign investments diminished, so their risk appetite for off-shore ventures ■ Third, foreign interest rates

fell. In the 1980s yields of 14 per cent were available at the long end of the US treasury market. These have now fallen below 7 per cent. Finally, more stringent solvency margin rules have made

offsbore investments less attractive to Japanese inves-The cumulative effect of these trends has been a massive withdrawal by Japanese

investors from foreign mar-

But if the supply of dollars through the current account surplus remains steady, while the demand for dollars from Japanese offshore investors drops, the yen can only rise.

Richard Koo: "strong yen is made in Japan almost 100 per cent"

Aside from domestic investors going abroad, the only means of achieving balance between the demand and supply of yen (or dollars) is by opening domestic markets to imports, so that foreigners can

earn yen. With Japan running a bilateral trade surplus of nearly \$60bn with the US in 1994, it is not surprising that the US is making avery effort to improva access to Japanese markets. Dissatisfaction with the progress so far culminated last month in the US decision to impose a 100 per cent penalty surcbarge on the import of \$5.9bn worth of Japanese luxury cars into the US.

The deficit can either be adjusted through price, or through volume. The US, by pursuing managed trade - trying to extract numerical targets for market access - has favoured the volume route; Japan has favoured the price

Two points can be made. First, the sharp rise in the yen should, in the long run, narrow the trade gap, by increasing the price of Japanese exports, making them less competitive. The reverse applies to imports. These effects can, however, take time to work through the

Second, whether the US's return to the managed trade ronte will have much impact is a moot point. Even if the steps taken were totally effective and cut Japanese exports by \$5.9bn, this would only deal with 10 per cent of the problem (the \$60bn surplus).

Anyway, the powerful Japa nese Ministry of Trade and Industry (MITI) says it plans to take counter measures which

will neutralise any US gains. Mr Koo argues that MITI is very united in fighting the US position. No-one can stop them

His concern is that if the current squabble spins out of control, it will prove "a very costly war", pushing the Japanese economy into recession, and prompting either the stock market or the ven to collapse. Although the dollar has shown signs of strength recently, few would be confident that the current chapter of ven strength is over. While there is little dispute that it is considerably overvalued according to the OECD, the "fair value" or PPP of the yen

last year - this does not mean it cannot become more so. Until Japanese investors are confident enough to buy dollars and return to US asset markets, it is difficult to see how the dollar can recover Such a return is unlikely, however, without compelling evidence that Japanese markets are opening, and that the trade surplus will fall.

was Y181 against the dollar

So far, howaver, Japanesa authorities have shown little inclination to take the sort of measures which will allow the surplus to fall meaningfully. It is not an encouraging picture.

DOLLAR: Philip Gawith says the performance of the US currency has confounded the forecasters

Time may prove to be the great healer

If you were to offer advice on a career to your nephew it would be as well to tell him to steer clear of forecasting currency: movements, particularly that of the dollar. Apart from a few notable exceptions, forecasters have had a fairly dismal time over the past 18

Early last year, the dollar peaked around Y115 and DM1.77. With the exception of a brief rally in November and December, it then fell steadily to touch new lows of DM1.3450 and Y79:75 in March and April

Throughout this time there was never a shortage of analysts cailing a turn in the dollar, and these investors who believed this advice lost money Some of the practitioners became so confused that the head of foreign exchange at one. Wall Street house was

dollar): "We haven't got a clue, and are positioned accordingly.

Tha hazards of predicting the dollar's performance have been much in evidence over the past month. In early and mid-May, it staged a strong rally, rising by around 8 per cent from the historic lows. This provided an excuse for the optimists to reemerge. Paul Chertkow, head of global currency research at UBS in London, was one: "The dollar has turned back from the precipice of a crisis of confidence. I believe that the conditions are now in place for a

dollar recovery," he said. He also enjoyed the support of technical analysts, with Brian Marber, an independent foreign exchange consultant in London, calling a "major trend reversal" in the currency.

This rally then petered out

in the last week of May, amid forced recently to admit of the fears of the US economy slip-

ping into recession. The bears were again in the ascendancy. But they hardly had time to reclaim the haton when an unexpected round of central bank support for the dollar last week gave cause for further

If, as some believed, it testified to greater concern about the dollar on the part of the Clinton administration than previously thought, this would represent an important change in the matrix of factors determing the currency's value. The hulls were able to smile again. Their optimism, however.

sted precisely two days. The release last Friday of a much weaker than expected June employment report in the US reinforced fears that the US economy was slipping into recession, driving the dollar back to around DM1.40 and

Against the backdrop of

US's low savings ratio, which have weighed down on the dollar will not he addressed. Also, the prospect of falling US interest rates does not provide mncb incentive to hold dollars. As a result, talk of a

The upshot of all of this, unsurprisingly, is a mixture of pessimism and confusion. While any recovery in the dollar certainly looks further off, it is still the case that most investors want to believe that a turn in the dollar is only a matter of time. Notwithstanding the wounds of the recent past, there appears, on the part of investors, an almost pys-

chological need to believe in a stronger dollar. Accordingly, when it is weak for a protracted period, as it bas been, this tends to be tolerated, rather than accepted. Bulls may become bears, but, more likely, they simply go into hibernation and emerge again when they scent a dollar rally. Understandably, given

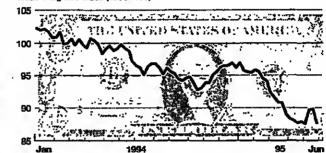
recent experience, there is a great deal of caution around. What can be said with confidence, is that a significant move is more likely on the noside than the downside. Although there are a number of analysts who still think one further sharp fall is possible tbere are few, if any, who think the dollar can repeat the sort of falls it made in the first quarter.

The mood of the market has also changed. By April, sentiment had reached an absolute nadir. Everyhody wanted to

Trade-weighted index (1990=100)

Dollar

Source: FT Graphite



sell dollars, and there were few huyers. Now the market has Second, fundamentals, or more of a two-way feel to lt,

long-term investors. Whether economic fundamentals justify a rally is another matter. In addressing this question, a few preliminary points should be made. First, the dollar rate is by no means set on an axis between Wall Street and Capitol Hill. In the sbort term, events in Tokyo or Frankfurt can be just as important in setting the

though there is still not much

evidence of dollar buying from

exchange rate.

notions of "fair value", can be of little predictive value since currencies can trade away from them for protracted periods. Finally, time-frame is all important. While many analysts expect a dollar rally in the sbort to medium term, there is little dispute that the long-term decline of the currency (from Y360 and DM3.70 in 1970) is set to continue. in parallel with the growing economic power of Germany,

countries, especially in southeast Asia.

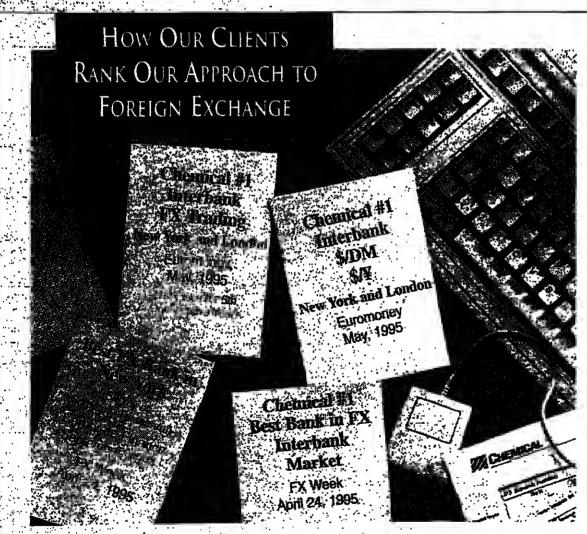
As comments elsewhere on this page make clear, the dollar seems unlikely to make much headway against the yen before tha trade gap starts to shrink, and Japanese investors are sufficiently confident to

return to US asset markets. Tough budgetary action in the US could belp change the market's view on the dollar as a store of value.

But the proximity of presidential elections, and the backdrop of a slowing economy. make decisive progress on this question far from a foregone conclusion.

Growth is the other key issue. If, as some predict, an improved US trade performance provides the impetus for faster growth in the second half of the year, and the German economy slows more than expected, interest rate differentials could move in the dollar's favour. An improvement in the US's trade account would also help the dollar.

Typically, the qualifications outnumber the facts. Forecasting, meanhwile, remains as Japan and other developing thankless a task as ever.



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FOREIGN EXCHANGE 4

pare a thought for the Bank of England, the guardian of Britain's currency. It has recently had to cope with a combination of for a crisis was palpable, if only to satisfy its deep-seated events which would be enough to leave anybody baffled. pessimism about the recidivist

On the one hand, it is widely acknowledged that the economy is performing as well as it has done at any stage in the past 40 years. Growth has been proceeding at a healthy clip, unemployment is falling, inflation is constrained and interest rates remain at a fairly low level. If sustainable growth with low inflation is the ideal. this cannot be far short of it.

On the other band, the pound fell to a historic low of 2.1765 against the D-Mark on May 9 - a decline of 11.5 per cent from the start of the year with the trade weighted index also reaching a new low

The D-Mark is the currency

that many non-Germans covet

and most Germans are reinc-

tant to give up. If European

monetary union occurs, that

dilemma will strike bome witb

fall force. Both foreign and

domestic holders of D-Marks

will have to be convinced the

new Enropean currency will

be every bit as solid as the

German currency. Emn is still some way off

and not everyone is convinced

that it will take place. Until it

does, the D-Mark will continue

to be a focus of close attention

in world financial markets. Its

recent rise has been extraordi-

nary ~ np 16.5 per cent against

the dollar in the first quarter

the \$/D-Mark rate. Avinash Persaud, currency cent against the weighted

instincts of the UK's economic

Alas, it was not to be. Ster-

ling reached these new lows

with a whimper, not a bang.

There was barely a day when the pound was the main focus

of market attention. As ever, it

was caught up in the backwash

of the sharp moves generated

in the first quarter by the dol-

lar and the D-Mark. Indeed,

well over 90 per cent of ster-

ling's movement against the

D-Mark can be explained in

terms of what is happening to

of 1995 against the same period of 1994 and np 6.5 per average of the correncles of Germany's 18 main trading

This helps German inflation bnt bampers exporters. It also bighlights the country's high costs, with the Bundesbank pointing out in its annual report that labour and management bad not reacted sufficiently to this. Pay deals had not taken account of the D-Mark's "most recent dramatic appreciation", lt said. Thus it warned: "Germany's overall competitive position bas worsened."

As the recent intervention

of 82.7. Gailing for the market was that this took place with out a sterling crisis. Certainly there were times in recent months when the City's desire STERLING: it is described by one analyst as the European dollar

Dogged by political doubts

London, describes sterling as the "European dollar. It is highly sensitive to developments with the dollar, and this confuses those who focus on

Unfortunately for the Bank, inasmuch as sterling does enjoy a life of its own, it appears to be largely a political one. Certainly, for most of the past year it has been dogged by political uncertainty, meaning either that the market is worried about the survival of the nrime minister or the Conservarive party, or the prospect of

a Labour government More recently, a weakening of the UK'a current account performance, and renawed fears about the politicisation of monetary policy, have not helped sterling. Although the former trend is not severe, the

ling from now until the general The market is likely to start from the jaundiced perspective that anything Kenneth Clarke, the chancellor, does will be assumed to be for short-term political advantage, until he proves otherwise. That was

latter will continue to dog ster-

certainly the way the City responded to his decision in May not to raise interest rates. This approach may not be

opposed to the politics." Steve Hannah, head of research at IBJ International, tier" risk market - not as bad as Italy, Spain or Sweden, but not in the first division, with

fair, but it is certainly real. Says Mr Persaud: "The market is sceptical about how focused the politicians will be on getting the economics right as

describes sterling as a "middle Germany, the Netherlands or Switzerland. He says there is

evidence of foreign buyers returning to the market "on the basis that the bearishness has been overdone a bit".

Looking ahead, aside from how the dollar performs, and how responsible the government is in the run-up to the elections, the great imponderable for the market is what a Labour government might mean. Whatever the detail, "the new Labour party" certainly promises to be a more market-friendly beast than any

previous incarnation. Mr Hannah says: "The market accepts that there has been

Sterling

an enormous degree of convergence on economic policies." He is not predicting a seamless transition, but adds: "I don't think anybody would want to speculate now on an enormous

downward dislocation for sterling should Labour win." That, at least, should give the Bank some cause for comfort.

Philip Gawith

Andrew Fisher tracks the extraordinary rise of the D-Mark

Europe's safe-haven currency

by central banks to shore up the dollar shows, currency trends can change. This year, the US currency has been above DM1.50 and below DM1.40. Economists feel it should be at least DMI.60 on purchasing power comparisons. Concern over economic trends and fiscal policies lies behind the perception of the D-Mark as a "safe-haven" currency, with the Italian lira.

Spanish peseta and Portuguese escudo all falling sharply against the German currency this year.

Since Britain'a humiliating exit frnm the Enropean exchange rate mechanism (ERM) in September 1992, the pound has fallen by 24 per cent against the D-Mark. In fact, sterling'a performance over tha years shows how relentless the D-Mark's progress has been. In the early 1960s, the pound was worth ded and its citizens have prosmore than DM11 and has since fallen to around DM2.20. pered the currency has benefited. The D-Mark is now the

The D-Mark was born in 1948 when the currency was reformed to bring stability to Germany's chaotic post-war financial situation. With the Bundesbank created to maintain monetary order, and not afraid to cross swords with the Bonn government, the German

currency after the dollar, eccounting for 16 per cent of monetary reserves held by world central banks. Foreign investors' confi-

second most important world

As the economy has expan-

dence in the currency led to net capital inflows of some

DM57bn into Germany last

Any snggestion that Germany'a prized stability, economic or political, is under threat would clearly jeopard-ise the D-Mark's strength. The country has weathered the strains of unification, though at great cost, and a debate is now under way over removing some of the structural rigidities which keep unemployment high and inflate government

If the centre-right govern-ment of Chancellor Helmut Kohl looked like being replaced by a social democratereen coalition - a subject of discussion after recent state

elections - financial markets would certainly take it out on the D-Mark. But for the moment, the currency remains unassailed.

For the German people, it is proof of stability in a century of world wars and hyperinflation. "The success story of the D-Mark forms a large part of the Germans' aelf-image, which - as is wall known abroad - is constantly threatened by 'German angst'," said Mr Jürgen Stark, state secretary at the finance ministry in London recently. He supports Emu, but recognises that selling it to the Germans will not easy. They love their

EXOTIC CURRENCIES: Philip Gawith and Lisa Bransten report

Tequila hangover still lingers

from several Asia-Pacific countries met last month in Manila to discuss the establishment of a foreign exchange stabilisation fund, it is a fair het that tequila did not feature as their favourite after-hours tipple.

Their very reason for meeting had its roots in the so-called "Tequila effect", earlier in the year, when investment funds took flight from their countries as a result of general disenchantment with emerging markets in the wake of the Mexican crisis which developed in late December.

It was an educative period

who all ran for the door at the same time were soon reminded that the capital markets of developing countries are subject to much more dramatic swings in prices than those of developed nations. Countries which had enjoyed seeing capital flow into their markets became aware that such capi-

tal can leave as quickly as it came, with potentially disruptive side-effects. Five months after the crisis gan, a measure of stability has returned to Mexico. After

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uation level of 3.45, the currency has recovered to trade around 6 pesos to the dollar. Fears of the government suspending convertibility have abated, with the premium paid for convertibility insurance on transactions falling to around 3 per cent from 20 per cent at the height of the crisis.

But even as trading in pesos approaches normality and economies hegin to recover from the tequila hangover, the fall-out is still evident. According to Pahlo Septien, a peso trader at Merrill Lynch in New weakening to around 7.5 pesos York, volume on the spot marto the dollar, from a pre-devalket has fallen sharply from

pre-devaluation levels so that a \$50-\$100m order can now move the market in a way which formerly required an amount closer to \$300m.

Many expect that new developments in the peso market will add stability. In the wake of the devaluation, for example, the Mexican government began permitting Mexican banks to trade forward contracts for pesos, although there has not been much activity yet. Also, in late April peso futures and options contracts began trading on the Chicago Mercantile Exchange.

It is too soon to measure the

Mexican peso Against the dollar (pesos per S) 5.0 Dec 1994

effect of these new instruments, says Gustavo Dominguez, who runs Latin American local markets for Chase Manhattan in New York, but ultimately they should reduce volatility. "Any market around which you put hedging instruments is going to be more sta-

Source: FT Georbile

ble." he says. One of the most basic lessons e from Mexico is t a hland lumping together of all emerging markets in an undifferentiated bundle is inappropriate. In Chile, for example, where export growth has generated healthy levels of foreign exchange, the currency is now stronger than It was in early December. It continues to attract portfolio and direct investment hy foreigners. Peru and Brazil, by contrast, are having to face the problem of overvalued currencies.

Some analysts would link the stability of the Chilean peso to the fact that the country still implements exchange controls. This analysis would certainly meet with some sympathy in Asia, where there is still considerable resistance to the internationalisation of curreccies that accor

eign investment. While Asian markets may have shaken off the effects of Mexico more quickly than Latin America – the economic fundamentals of the two regions are in any event very different - the gathering of central bankers in Manila testifies to continued concern about these issues. It was the third time this year such a fund has

the meeting - Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand - as well as Taiwan, South Korea and other smaller, mostly island, nations. The practicalities of such a

been discussed. The Asean

countries were represented at

fund make its realisation unlikely. It also raises problems of moral hazard - a country could exploit the fund's safety-net features to pursue unsound economic policies. Chris Tinker, chief economist at Standard Chartered in London, says: "It is the pipe dream of central banks which would like to have more control over the market.

If central banks are having to come to terms with the limits of their powers, investors are also learning about currency risks. As Mr Tinker notes, for dollar-based investors (who account for most emerging market flows), there was never perceived to be much currency ris markets, many of which were linked to the dollar. Accordingly, investments were often unhedged. Mexico, however. put paid to that, and there is now increased focus on cur-

In managing their currencies. Asian central banks were, until recently, trying to balance the desire to keep their exports competitive, with the remain protected.

need to avoid importing inflation through an undervalued currency. Competitiveness and inflation were the key issues.

In 1995, though, a third factor has been added to the list the cost of debt. A lot of Asian countries still have most of their revenues denominated in dollars, while a large portion of their borrowings, or deht, is finance and infrastructural development is provided by Japan. The sharp rise in the yen this year, however, has exposed some painful mismatches between dollar assets and yen liabilities.

Many Asian central hanks had, over the years, huilt up very large dollar reserve holdings, based on export success. This year has been notable for them having to think about shifting more of these reserves into other currencies, espe-

cially the ven. Less discussed than Latin America and Asia are the Europe where exchange rate developments have tended to be very positive, particularly in the Czech Republic, Hungary and Poland. In part, this reflects economic success, reflected in higher growth, lower inflation and improved external balances, but it is also a function of the extent to which these exchange rates

SINGAPORE: it is rapidly closing the gap on Tokyo, says Kieran Cooke

rency risk.

Rising hub of global trading

Singapore strives to be top, or near the top, in various sectors. In less than 30 years the island republic has been transformed from a run-down trading post into a sparklingly clean and efficient metropolis. With a population of under 3m Singapore is today the world's leading producer of computer disk drives. Its container port vies with Hong Kong as the world's husiest. Its airport is consistently voted the world's most efficient

The growth of Singapore's financial services industry has been no less impressive. The island republic's planners decided to encourage the development of a financial services sector in the late 1960s. Financial services, excluding business transactions, now contrib-ute 13 per cent of national of the global hubs of the industry; soon after the dealing rooms and computer terminals of Zurich, London and New York are closed, the south-east Asia markets - dominated by Tokyo, Singapore and Hong Kong – start a new day.

Foreign exchange dealing bas been the fastest growing segment of Singapore's financial services sector. When the Bank of International Settlements produced its last league table of the global forex industry in 1992 Singapore was ranked the fourth busiest centre in the world, behind London, New York and Tokyo but ahead of Zurich and its regional rival. Hong Kong. Monetary officials and locallybased forex dealers estimate that Singapore has closed the gap considerbly on Tokyo ovar the past two years.

The Monetary Authority of Singapore (MAS), the island republic's de facto central bank, says forex trading volumes have risen from a daily average of US\$81hn in 1992 to US\$100bn daily last year. The MAS says that average daily

volumes for the first quarter of this year, computed on an annual basis, rose to US\$117.6bn. In 1992, Tokyo's average daily forex turnover was US\$128bn.

Tokyo still dominates the yen trading market. But in every other currency Singapore is well ahead, and is particularly favoured among D-Mark traders. We have far more depth and breadth than Tokyo," says a monetary official. "We are much more diversified. That's a big attraction for the banks: they can come here and deal in a wide range of currencies and not, as in Tokyo, be limited mainly to yen trading."

There are now 210 banks and merchant banks in Singapore the bulk of them foreign institutions. Officials say a critical mass has been developed; Singapore anticipated this influx by putting large resources into developing the expertise neces-sary for forex trading. Institutes, colleges and universities all run courses aimed at catering to the ever increasing needs of the forex market. The Union Bank of Switzerland, Swiss Banking Corporation, Citibank, Barclays and many others have their regional forex headquarters in Singapore. Most have locals rather than expatriates in charge of

their forex operations. "Perhaps it's Singapore's history as an entrepot that makes people bere seem more adept at forex dealing than their counterparts in Tokyo," says a banker who has also worked in Tokyo. "A lot of expertise has been built up here over the years." Foreign banks also say that though operating costs in Singapore are rising fast they are still well below those of Tokyo. An added bonus is the availability of staff speaking English.

When forex dealing started in the 1970s the hundreds of foreign companies and multi-

Singapore to set up manufacturing operations were an important part of the market. Foraign companies bedged their currency risks through local dealing: while such activities still form part of the forex industry the main spur to growth has been the fast economic expansion of the southeast Asia region.

nationals which crowded into

Singapore's economy has grown by between 6 and 10 per cent in each of the last 10 years. The economy in neighbouring Malaysia has grown by more than 8 per cent in each of the last seven years. Thailand has had similar growth while Indonesia and the Philippines have joined the path of fasttrack development.

■he amount of trade between the dynamic economies of south-east Asia and Europe, North America and Japan has multiplied sevaral times in recent years. There has also been a signifi-cant growth in inter regional trade. A greater interest in regional currencies has developed in parallel to south-east Asia's rise as one of the world's most significant trading regions.

It'a estimated that US\$/DM and US\$/yen account for more than 50 per cent of forex trading in Singapore. Sterling makes up about 10 per cent while the Swiss franc is about 8 per cent and the French Franc 2 per cent. A substantial portion of the remainder is taken up by trading in regional or so-called "exotic" currencies the Malaysian ringgit, the Thal babt, the Indonesian ruplah, plus Australian and New Zealand dollars.

"There's no doubt Singapore leads the field in regional currencies," says one local forex dealer. "A lot of Malaysian ringgit is being traded in London and New York. But daily ringgit trading volumes in

Singapore were up to between US\$3hn and US\$4bn on the spot and forward markets at one stage late last year. Singapore is also the centre for trading in the other regional currencies, particularly the Thai baht. The foreign banks are really gearing up their regional

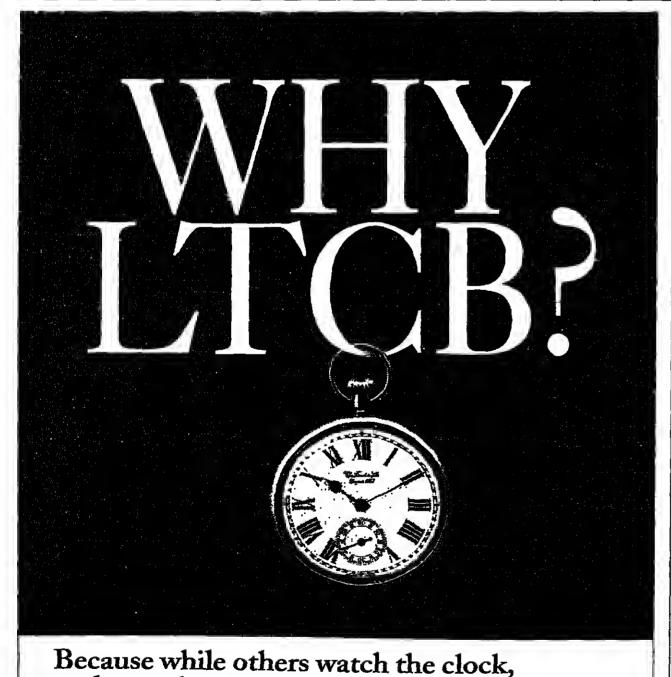
forex trading."

The attractions of currencies like the Malaysian ringgit are volatility, underpinned by sound economic fundamentals. The ringgit has see-sawed from M\$2.50 to the US\$ to nearly M\$2.80 and back to under M\$2.50 over the past 18 months. Mucb of the reason for that volatility was initially caused by Bank Negara, Malay sia a central bank.

At the end of 1993, Bank Negara bought in large quantities of US dollars to revalue its reserves and reduce year-end book losaes caused by the hank's own multibillion-dollar speculation on the forex markets. The result was a sharp fall in the ringgit: the world's speculators saw an opportunity and rushed in to buy the

Malaysian currency. Bank Negara, alarmed at the inflationary impact of large amounts of speculative funds washing into the country, then introduced a series of restric-tions on ringgit holdings. Traders and investors wanting to hedge their ringgit investments had to move elsewhere. Singapore, due to its status as a financial centre and its mar-ket knowledge of the ringgit. was the natural choice: Singapore's ringgit trading volumes went up five times in a year Though volumes have dropped back in recent months Singapore's forex dealers see 2 steady growth in ringgit and other regional trading over the

next few years. "All the foreign banks are stepping up their regional currency trading here," says a trader at one of Singapore's biggest forex operations.



eran Cook

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FOREIGN EXCHANGE 6

RETAIL CURRENCY: Motoko Rich discusses the traveller's dilemma

Counting the cost abroad

Every traveller abroad is familiar with the pain - or joy of calculating the cost of a cup of coffee or an hotel room in a foreign currency.

In some cases, these mental calculations may restrain the traveller's spending habits. In others, the power of the traveller's domestic currency can prompt a spending spree.

Recent currency volatility has caused some fluctuations in the world travel industry. From the UK, for example, the recent strength of the pound against the Italian lira and the Spanish peseta has made Italy and Spain more popular desti-nations for bolidaying Britons.

Time Off, a travel agency in London, said it had ooticed the trend over Easter, wheo travel-lers seemed to favour these countries over France and Hol-

The southern European countries are the most popular holiday destinations this year

land, more traditional destinations for spring get-aways. "Italy and Spain are attractive options because the pound is doing so badly against other currencies, particularly the French franc, said the agency, "So France is suffering a lot at

With the fortunes of the pound so closely tied to those of the dollar, it is not surprising to hear that US travellers are opting for the same destinations as the British, "The most popular destinations this year are the soutbern European countries because there tbe currencies are not so strong," said Ms Frederique Raeymaekers, chairman of the European Travel Commission in New York City. "That is where the best bargains are."

In the run-up to the summer bolldays, the ETC forecasts that more than last year's record 8.3m US residents will visit Europe. According to an ETC survey of transatlantic airlines, reser-

particularly to the UK, France, Italy, Spain, Ireland and Perillo Tours, a US tour oper-

vations from the US are up.

ator which caters for tourists winter, when travellers from going to Europe, has reported a 15 per cent rise in bookings during 1995. Rail Europe, which sells rail passes and tickets to 10 per cent of the American travellers who visit Europe, has reported a 30 per cent rise in husiness to the end

of April. Likewise, travel to the US has also increased on the back of currency movements. in New York for example, tourism to the state is up 7 per cent the northern hemisphere seek to escape the cold.

Few travellers anticipate currency movements by purchasing the money in advance. "In the retail market people leave It to the last minute to huy their currency," said Ted Keeble, head of foreign exchange at American Express. "We do oot see people rushing in to buy any large amounts.

The exception, bowever, was Germany: American Express



parts of Europe and Japan the dollar is favourable," said Bern Potman, of the New York state department of economic development, which runs the "l Love New York" campaign. The number of foreigners visiting New York City was up significantly and it was clearly due in part to currency values.

While favourable currency movements may encourage customers to choose a particular place, seasonal travel habits can change the popularity of particular currencles. According to Derek Coles, head of foreign exchange at Barclays Bank, UK demand for the Austrian schilling increases in the winter skling season. The Australian dollar also becomes one of the top 10 best-selling curreocles in the UK during the

up dollars when the greenback was particularly weak against the D-Mark in March this year. "We probably doubled what we would have sold in Germany in that time of year," said Mr Keehle. "The British public do not buy like that. We put our trust in fate."

According to the ETC's Ms Raeymaekers, American travellers adjust for currency fluctuations by cutting costs. "The American tourist knows what it is going to cost him and what he can do to get around ." she said. Budget travel guides such as

the US's Let's Go or Arthur Frommer's guides have benefited from the need for travellers to seek cheap alternatives in a country where the currency is more expensive. "Since our guides deal with hudget opportunities, they tend to do better when the dol-lar is weak," said Mr Frommer. "It pushes more readers towards us because they need to book themselves into modest pensiones, bed and breakfasts, and second class botels.

said Mr Frommer. But he admitted the recent currency volatility - much of which occurred after the 1995 editions had been published had skewed some of the prices included in the guides, especially in the "Germany on \$50 a day" guide. "The 1995 edition of the German guide does not reflect the weakness of the dol-lar," said Mr Frommer. "I think we would have changed the title to Germany on \$55 a day, or maybe even \$60."

A similar, but more dramatic problem occurred at the Rough

Few travellers anticipate currency movements by purchasing the money in advance

Guide, the UK budget travel series, after the 50 per cent devaluation of the CFA franc, the currency of Francophone West Africa, in February 1994. According to Richard Trillo. Africa editor, prices at upmarket botels and restaurants sky-rocketed overnight. "The prices at least doubled. A hotel that would have been £50 cost £100. We had to adjust all our guides to these new prices. While travel guide writers.

travel agents, and tourist bureaux pay close attention to foreign exchange, it is a low priority for most customers. According to a survey by ARTAC, a UK consortium of independent travel agents, exchange rates were the smallest concern for travellers.

When people pick their holiday they have planned and saved for months," said Alison Eggison of Abercrombie and Kent, a London travel agent David Gladwin, director of dealing operations at Thomas Cook, the travel and foreign exchange husiness, said: "At the end of the day people say 'I have got this much money and do not see foreign exchange affecting their plans.

ELECTRONIC BROKING

The voice of experience is beginning to fade away

One of the ontstanding features of the past year has heen the onward march of electronic broking, with the ERS consortium, in which many of the largest foreign exchange banks have a stake, making particularly significant gains. Peter Bartko, EBS's chairman, claims: "We are probably the fourth biggest spot broker in London." This, in turn, has posed

some difficult questions for the voice-broking community. Their resilience is not in doubt. They have survived and flourished despite earlier threats such as the development of telex facilities, international direct dialling and the development of the interbank market. But the recent announcement of lay-offs is evidence of signs of strain.

EBS's growth has been impressive by any standard. It has grown from a 4.1 per cent share of the London broking market in January 1994 to 17 per cent in March 1995. The accepted rule of thumb is that the broking community, in turn, accounts for around one third of spot foreign exchange trading in London (with the top three, Tullets, Marshall and Harlow, accounting for 60-70 per ceot of the hroking

Market penetration is also impressive. The number of clients has grown from 144 at the eod of 1993 to 278 by mid-May, with the number of work stations growing over the same period to 928

The other significant presence in electronic broking is Reuters. Nimex, which is backed by the Dow-Jones group, is also In the market, although It is limited mostly to Asia. Nimex is believed to have around 20 per cent of the dollar/yen market in Tokvo.

In terms of market share, EBS appears to have stolen a march on Reuters. A Reuters spokesman says they have about 12.5 per cent of the London broker market. The two businesses are not identical. Renters tends to do more smaller trades than EBS, so whereas the average Reuters deal is around \$1.5m, the figare for EBS is probably closer more diverse business. Around London's large brokers said you have to know that price,

80 per cent of EBS business is in \$/DM and DM/FFr (with recently: "I do not see elec-tronic broking making such an around two-thirds of this in \$/ inroad into traditional voice hroking that it will harm us in DM). Reuters bas a slightly broader spread, being slightly less dependent on S/DM, and having a reasonable presence

Mr Bartko is quick to deny any imperialistic ambitions -"I don't think I am going to put the (voice) brokers out of business" - but speaks with the clear conviction of one in all of it too who feels he has time on his

in S/yen. DM/Lira and S/Swiss

Brokers, of course, are not taking all of this lying down. One way of keeping the banks' business is through beavy discounting with large hanks reputed to be able to get discounts of up to 70 per cent, if they put sufficient volume through the brokers. Other responses include backing up voice brokers with a screen displayed price. Yet another response to competition has been to improve confirmation procedures, which currently take a few hours, down to around five minutes. Electronic systems can confirm within a minnte.

There has also been some

any way." It is difficult to square that view with recent lay-off announcements: 40 broking jobs gone at Exco, 48 at Prebon Yamane, and Martin Bierhaum also admitting tn lay-offs. All cited a downturn in market activity, but it is difficult to believe there is not an electronic broking element

come at the expense of brokers either. Smaller hanks have often tended to deal directly with each other, or with large banks when small amounts are involved. (Historically, the larger brokers bave often refused to deal in lots smaller than \$5m). KBS, bowever, has eaten into this market because by always baving a price on the screen the market bas become more transparent, and smaller operators often prefer

Not all EBS's success has

EBS has been most successful in the D-Mark/French franc cross. Mr Bartko contends: We are probably the best DM/ FFr broker in the world today. The EBS price has become the

simply to hit the screen price.

liquidity at that price." Unsurprisingly, banks active in this market who previously adopted a disdainful attitude to EBS are now singing a dif-

Mr Bartko believes that ERS is arguably the best also in D-Mark/Swiss franc, and says that the EBS prices in \$/ in some trading centres.

Price and liquidity are the crucial issues for brokers: prices must be ahead of, or in ine with, the market. If they are behind, the customer suffers. Also, if a broker is the source of liquidity, then others will want to do business with him. It is by these standards that EBS is starting to succeed: "It is the quality and depth of liquidity now that draws people to the service." says Mr Bartko. Certainly, in some currency pairs, EBS has also overcome the early criti-cism that its prices tended to lag the market.

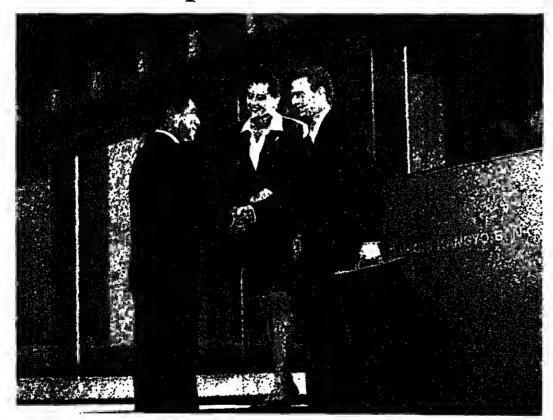
While progress has been significant, EBS still faces many challenges, most notably, making the weak currency pairs strong. "To have three successful currency pairs out of 12 is not a high percentage," says Mr Bartkn. Initiatives under way to improve performance include introducing a new screen which will show not only the best price, but the best price in a regular size. The system will also be modified so that more than one currency pair can be traded simultaneously. At the moment nuly one price is available on the screen at any

one time. In terms of its original mandate - to provide competition to Reuters, which had 50 per cent market share through its 200-1 and conversational direct dealing service - EBS has succeeded admirably. Now the challenge is to develop a successful brokerage husiness.

Although both Reuters and EBS can cite impressive volume growth, it is not clear whether either is profitable. Their reluctance to answer inquiries nn this point provides at least some comfort for / the voice brokers.

Philip Gawith

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Profile of a fund manager: ADAM GRESHIN

Dollar teaches a hard lesson

What most mutual fund shareholders want, of course, are the highest returns for their investments and that may mean hedging a global bond fund against currency risk. But contrary to what the name implies, bedging does not always guard against risk. It is not a lesson lost on Adam Greshin who manages the portfolios of several global bond funds for Scudder. Ste-

vens & Clark, the US mutual fund company.

Last year Scudder's Interna-tional Bond Fund ended with a negative total return of 8.6 per cent in large part because Mr Greshin bet on the dollar to rise and hedged up to 90 per cent of the fund - which holds securities denominated in dol-

lars. D-Marks, yen, Swedish kroner and New Zealand doiiars among others - back into It was a strategy that had worked well in the past. Before 1994 the fund beat its benchmark – the unhedged Salomon Brothers Non-US Dollar World Government Bond Index avery year since 1988. Last vear the unhedged index

eturned nearly 6 per cent. Two years ago our institu-tional investors loved us. We crushed the index in 1993 because the dollar was wellhid, the hond markets were roaring. If you lost money in 1993 you were brain dead," he

As an example of the benefits hedging can create he cites the market in Italian honds. In 1993, his investment in those boods returned nearly 32 per cent in lira terms. In dollar terms that translated into a return of just 14 per cent, but Mr Greshin had taken steps to guard against weakness in the lira and was therefore able to capture the full underlying

benefit of the bonds.

When the fund manager is on the right side of the currency bet the strategy can be extremely popular. But, as be found out, the strategy can quickly hecome unpopular when the manager hets the wrong way.

Last year investors began taking issue with his strategy. Clients began to question whether active management of cnrrency was appropriate wrong and they had hired you to have a lot of currency expo-

When the fund was established in 1988 there was little choice but to expose investors to the full currency risk because there was little available in terms of options on most currencies. "We purchased the bonds and the cur-

'I have to be careful not to be on the wrong side of a trade that everyone is piling into'

rency and let the market go where it went," Mr Greshin

Since January 1991 the number of international bond funds in the US has risen from 38 with total net assets of \$14.bn to 144 with \$32hn in total net assets in March this year, according to the Investment Company Institute, the trade group of the mutual fund industry. Meanwhile, the availability of currency options and derivatives grew dramatically as banks jumped into the surging market in foreign exchange

Mutual fund managers have become important enough as a client base in recent years to merit the development of special types of products and information to meet their growing needs at some banks. But while the number of players hoping to take advan-tage of sophisticated currency markets grows, the market is plagued by the evaporation of liquidity seen last year as make markets in currencies more exotic than the Japanese yen and the D-Mark.

So the higgest effect of deal-ing liquidity for Mr Greshin has been that he has to watch the currency markets more closely. "I have to be careful not to be on the wrong side of a trade that everyooe is piling

That is just one of the reasons be keeps a close eye on global currencies as well as honds, making all the final decisions about where to invest and where to hedge. He has avoided the strategy because many investors got it known as "currency overlay"

in which the fund manager makes bets based purely on the value of the underlying security and turns over the job of hedging decisions to a cur-

rency specialist. "In my opinion it is a failing strategy to have someone separately manage bonds and currencies because for a global bond fund currencies are a very important part of the decision (about what to buy)." And what decisions is he

making now? Well, baving learned his lesson last year, he is holding fewer dollars. About 60 per cent of his portfolio is hedged, and so far this year the return is 2.86 per cent.

"I don't know what they Ithe investors] want." he says, "but I know that my mandate is to provide currency for them. We compare ourselves to a benchmark and it is a currency

Lisa Bransten



in 1993 you were brain dead"

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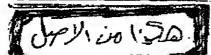
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Tuesday June 6 1995

ebenon, somewhat to its surprise, is still a coun-try. Nearly five years after the end of 17 years of tribal warfare between and within Lebanon's 17 minority communities it is, moreover, a country which could have a bright future. Success depends on whether it can build a political consensus across the sec-tarian fault-lines inside Leba-non, and whether a Middle East within tantalising reach of peace embarks on detente and development, allowing the Lebanese to reclaim their role as the interface between the

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The banking sector is

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racing to carve out a new

region and the west. The 1975-90 civil war wreaked such destruction on Lebanon that it came under the creeping hegemony of Syria and lost control over part of its southern territory to Israel. Today's reconstituted central government makes no bones about it. "We lost all our sovereignty, all our independence, all our institutions." says Fares Bouez, the Lebanese foreign minister, who in January 1991 took possession of an office with no ceiling, no chairs, no electricity and over-run by rats - very much the state of the nation at the time. Central Beirut still looks skeletal, but it vibrates with new energy and purpose. The daily explosions are caused not by militias but by demolition crews working for Solidere, the \$8bn private company which has started recreating a financial and commercial centre for the devastated capital. The government of prime minister Rafiq Hariri has made reconstruction its principal goal, aiming to channel at least \$32bn into rebuilding the shattered infrastructure and relaunching the economy under the Horizon 2000 plan.

Reconstruction alone, the government believes, should provide growth of about 8 per cent annually into the next century. By then it hopes Lebanon will be earning a handsome living as a services entrepot for a region reshaped by peace, in particular as a sophisticated capital insrket channelling funds into the Middle

Mr Hariri, a pusinessman with a reputed fortune of \$4bn



National consensus remains elusive

While work is starting in earnest on rebuilding the war-torn country, a recent cabinet upheaval has highlighted the extent to which the nation is still politically divided, says David Gardner

amassed mainly in Saudi strong national army. The Leb-Arabia, emerged as a lead player in Lebanon's future during the negotiation of the 1989 Taif Agreement, which put an end to the war. He took over as prime minister in October 1992. when it had become clear that the Taif deal had failed to halt Lebanon's drift.

With Syrian backing, Mr Hariri has given Lebanon security. All but one of the civil war militias have been disbanded, replaced by a 53,000-

lighted how politically unreconstructed Lebanon remains. anese pound, which lost 55 per On May 19, Mr Hariri submitcent of its value in the eight months before he took over. ted his own and his cabinet's has since appreciated by 25 per cent - albeit held by high resignation, frustrated by warlords and traditional clan and interest rates which are crowdsect leaders in government and ing out investment. Last year, parliament who have the Lebanese diaspora repatriobstructed his reforms and ated \$6.5bn, covering the flood reconstruction. After intense of imports needed for reconconsultations with Syrian president Hafez al-Assad and his son Bachar, Mr Hariri re-emerged a week later at the

struction But if the country is being physically rebuilt, events of the past month have highCleaning up in Beirut: new energy is being injected into the city

with technocrats and loyalists. The episode underlined the extent to which Lebanon's traditional political class needs Syria to arbitrate its inter-confessional rivalries, and Mr Hariri has still to negotiate policy with the former militia leaders and barons of the mountainous country's neo-feudal cantons. Getting 14 out of 28 technocrats into cabinet can be seen as a boost for Mr Hariri. But that, and his attempts to place his associates in rival minis-

tries, is largely a substitute for failure to reform the civil service, which the barons have succeeded in keeping staffed on a quota basis, retaining

their own powers of patronage. The prime minister has made little attempt to remould the pre-war confessional system. under which primary loyalty is to religion, sect and clan. Addressing the task of reconstruction, he is ignoring the challenge of national reconcili-

"We ended a war," says one government adviser, "but we are not building a peace. There is a national consensus that we should live together, but that consensus is in society, it has not reached the political class."

The Taif accords are part of the problem. They rebalance power between the country's main groupings, taking from the pre-war executiva presidency through which the Maromite Christians had dominated Lebanon, and giving to a Sunni Moslem premier (Mr Hariri), and a Shi'ite Moslem speaker of parliament, the formidable former Shia militia leader, Nabih Berri. But three more or less equal "presidents" has created institutional gridlock, as well as reconsecrating confessionalism.

No one is articulating a national vision for the Lebanon, or attempting to surmount the colliding historical myths that most leaders cling to in order to keep inter-communal hostility bubbling and themselves in power. Maronite leaders, for instance, having failed to secure their paramount position by war, are stoking fears that Christians are being eclipsed by Moslems. This message is partly self-ful-filling, since they boycotted the 1992 elections, making the same mistake the Sunnites mada after the French established Lebanon as a separate entity from Syria in the 1920s. Maronite focus is narrowed on the succession this November to President Elias Hrawi, rather than on reorganising their national representation for elections next year.

The Maronite Patriarch,

however, Nasrallah Sfeir, may shortly break this mould by calling publicly for inter-con-fessional parties. We need to form parties, and a party of Christians and Moslems together in one national

party," he said.
One group unlikely to join is Hizbollah, the Shia fundamentalist group which keeps its militia in the field against Israel's southern "security zone", with the blessing of Bei-rut, political support from Damascus and finance from Tehran. But from kidnapping and suicide bombing, Hizbollah

has reinvented itself as a coberent social force, enjoying cross-community prestige for its resistance to Israeli occupation. It participates assiduously in parliament, and is showing signs of expecting to be reined in by Syria, if the Syrian-Israeli peace negotiations resuming this month lead to a deal.

Hizbollah's pull also comes from its ability to provide a welfare network for Shi ites, who make up a large part of the estimated 30 per cent of Lebanese living below the pov-erty line. Wealth disparity is not high on the government's agenda. "If we commit the error of worrying about (wealth) distribution before we reconstruct, we will fail," says a senior finance ministry offi-

Since the war, minimum wages have risen from \$18 to \$150 a month, but the Consultation and Research Institute, which does studies for the World Bank, reckons a family of five needs \$720 a month to stay above the poverty line. The fiscal regime, moreover, is regressive, with more than 60 per cent of revenue coming from indirect taxes. The issue goes beyond the contrast between the dense clusters of \$1m apartments mushrooming on Beirut's Corniche, and the bovels of the Shi'ite southern snburbs. The Institute's preliminary studies also find infrastructure and schooling to be far better in areas dominated by Maronites and the

This is the pattern of uneven development which fuelled bitter sectarian war. For all that Lebanon's economic success has rested on a model of freewheeling capitalism and minimalist government, reconstruction, even a senior central bank official admits, "has to be more broadly based and regionally fair". Mr Hariri is providing sewers and piped water, which people desperately need, but do not dream about. He has shown little inclination to appeal over the heads of warlords and barons to a population among whom support for him is largely passive, and where the commonly heard plaint is Ayn el-Badil - "Where is the alternative?"

The Lebanese Renaissance

bead of a cabinet half stocked

STARTING A NEW CHAPTER

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LEBANON 2

■ hat the Lehanese government has as yet no means of measuring more than approximately the country's gross domestic product speaks volumes on where Lebanon's economy now finds itself. Looking back to the massive destruction of the 1975-90 civil war, a generation's achievement in building a middle-income economy was levelled. But looking forward, Lebanon in reconstruction is surging ahead at such speed that the government believes it underestimated GDP last year

by about 20 per cent. Like many of his colleagues involved in the reconstruction drive of the past three years. finance minister Fouad Sanioura, is prolix in "before" and "after" snapshots. "When I arrived at the finance ministry. the main cashier did not even have a calculator," be recalls. "Now we have 200 computers." In lieu of statistics and developed macroeconomic models. what government computers are suggesting is a pattern of

growth averaging 8 per cent well into the next century. So far, and bearing in mind that resurgent Lebanon is starting from a low base with GDP now estimated at \$9.5bn and running at less than two thirds of installed capacity, this optimism looks partially justified. In the 25 years preceding the

civil war, Lebanon's economy. the most open in the region grew at an annual average real rate of about 5.6 per cent, easily outstripping population growth of about 29 per cent Nearly 17 years of war wiped out these gains; the Bank of Lehanou estimates average annual contractions in GDP in 1975-90 of 4 per cent.

Banque Audi, whose quarterly report provides probably the most authoritative picture of Lebanon's economy, reckons that growth last year was 8.5 per cent. If growth continues at this rate, it will be double the medium-term forecast for the region. These bopes rest. mainly on Lebanon's reconstruction needs, and its amhiEconomic optimism looks at least partly justified, says David Gardner

Hopes rest on renovation

tion to reconstitute Beirut as the leading capital market for the Middle East.

Central Beirut is already being cleared by Solidere to provide a home for this new market. But the Council for Development and Reconstruction is extending its Horizon 2000 reconstruction plan to 2007. This anticipates average annual public investment of \$1.4hn at this year's prices. with investment flows from the private sector at double this

The early phase of reconstruction - where the public sector is concentrating on basic infrastructure and private investors are behind a boom in the luxury real estate market - is so far proceeding at roughly this pace. Cement

Julian Ozanne on the Beirut Stock Exchange

deliveries in the first quarter of this year were up 99.3 per cent on the same period of 1994. according to Banque Audi.

In halance of payments terms, the repatriation last vear of \$6.5hn of Lebanese capital held abroad amply covered a \$5.4hn trade deficit, caused

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reconstruction But a significant financing gap is beginning to open up, which on government forecasts will require Lebanon to donble its stock of domestic and foreign deht over the next five years, from about 45 to 95 per cent of GDP.

While that looks manageable, the rate of expansion of

the hudget deficit does not. Without an accurate measure of GDP. Lebanon calculates its deficit as a proportion of revenue. This ratio has been rising exponentially: 40 per cent in 1993, 56 per cent last year, and _ in the

quarter of 1995, The stability 52 per cent. of the pound is a against a yearend target of 44 touchstone of per cent now looking more likely to be 60 confidence in Lebanon

per cent This is hardly surprising in a country which lost control of its tax base, is in the midst of a tax reform and has to hear high reconstruction costs as well as one-off costs such as the dishandment of a dozen militias and the creation of a

national army But the spending drift has high costs, particularly when allied to high interest rates intended to anchor a stable exchange rate, leading together to a crowding out of private investment. The hudget deficit and persistent political uncer-tainty since last December over the survival of the Hariri government, moreover, have led to pressure on the Lebanese pound, as well as a fall-off in capital inflows.

The stability of the pound, which has appreciated 25 per cent since Rafio Hariri took over as prime minister in October 1992, is a touchstone of confidence in Lebanon. The exchange rate has held, at what many local husinessmen and bankers believe is an artiBut between Mr Hariri's

ficially high rate.

threatened resignation last December and actual resignation last month - only to be reappointed on May 25 - the central bank has had to spend approximately \$800m of its \$2.7bn reserves supporting ths currency.

In the view of one leading Lebanese banker, "nothing has happened in the fundamentals over the past two and a half years to justify this apprecia-tion" of the pound. "What we need is a strong pound, not an appreciating pound," he adds. pointing out a second distortion caused by the high inter-est rates needed to maintain the currency and Mr Hariri's

The highly dollarised Lebanese economy has begun switching into pounds, changing the resources base of the banking system. But this is at the same time inhibiting lending, with few projects viable at an average 30 per cent cost of funds. The overall deposit base, con-

sequently, at about \$1200, far outstrips estimated GDP because investment charmele are temporarily blocked.

In the medium-term, how ever, the government hopes the private sector will be attracted into high-return investments, in part replacing public sector outlays, in for instance, six planned new enterprise zones, with tax holi-days and customs exemptions on imported raw materials and finished products taxed only if they are sold in Lebs.

Such projects are intended to hnttress the role Lebanon aspires to as a regional centre providing services and capital for a new Middle East on the verge of peace and starved of development funds.

In this vision, Lebanon will switch from its pre-war role as a banking centre recycling surplus petrodollars from the Gulf towards the west, and instead use its banking and entrepreneurial skills to channel funds from the west into the region.

Roula Khalaf

othing symbolises Leha-non's attempt to re-emerge as a regional financial centre more than the re-opening of the Beirut Stock Exchange, expected by the end

of this year, The bourse, closed since 1983 because of the civil war. is also critical to the country's reconstruction drive and to its efforts to attract private capital into productive investments for the economy, which is predicted to grow at an average of

8 per cent a year. The government expects up to \$20bn of private capital, largely held by Lebanese emigrants, to flow into the country within the next 10 years. underpinning the economic revival of Lebanon. But there is already no shortage of liquidity with an estimated \$12.5hn - 140 per cent of gross domestic product - held by the banks in deposits. The stock exchange will quickly emerge as a leading alternative to investing in Treasury hills and property and as a source of

long-term corporate finance. Furthermore, with Lebanon's long history of financial liberallsm - including currency convertibility, banking secrecy and unhindered capital movement - the bourse could also serve as part of a Lebanese capital market for other countries in the region.

With the advent of peace in the Middle East substantial

Symptom of change capital will flow into the region to rebuild infrastructure and sustain economic liberalisation. Stock Exchange officials see the BSE becoming a conduit for foreign funds into

is undergoing a cautious economic reform programme that includes privatisation. "We are in a hurry because the exchange must and will play a hig role in reconstructing Lehanon and we want to be ready for peace in the region,'

says Gabriel Sehnaoui, presi-

countries such as Syria, which

dent of the BSE committee. But reconstructing the exchange has not been easy, given the few companies eligible to be listed. When the market was closed in 1983, 45 companies were traded, about two thirds actively. However, many of these traded companies were public utilities whose concessions have since expired and reverted to the government.

Another active sector was banking, but in 1983 a law was passed - largely to prevent Palestinians taking over the banks - making any share purchase subject to lengthy Central Bank approval. This law effectively prevents the banks

reformed. Finally, most of the hotels and industrial companies once traded on the bourse have either been destroyed or taken over by a large group.

Not surprisingly, after 16 years of war the four companies still traded on the grey market and which bave kept strict auditing procedures are in the cement, glass and construction materials sectors.

hey, together with Solidere - the large private company rebuilding central Beirut, whose shares are currently being traded on the Beirut secondary market - will form the backbone of the blue chip market when the bourse re-opens. Plans are also under way to raise capital to rebuild the Phonecia-intercontinental and the Hilton, both also expected to join the market quickly.

Nabi Aoun, president of the Stockbrokers Association, says the market is unlikely to trade more than 14 companies by the end of 1996, including new issues. However, with a market capitalisation of up to \$4bn the Betrut market would, from

coming to the market until it is inception, be higger than the stock markets of Egypt. Morocco and Tunisia and would he almost the size of Jordan's hourse. Lebanon would be expected to benefit from the growing interest in

the emerging markets of the

Arah world. One of the advantages Lebanon has in reconstructing its market almost from scratch is its ability to introduce state-ofthe-art computer technology and to establish regulations which meet international standards and favour foreign investment, Unlike many other Arab markets, Lebanon will allow foreign companies a trading seat at the exchange so long as they have a representative office in Lebanon.

Robert Fleming, Merrill Lynch, Banque Paribas, Indosuez and ING are among the foreign companies that have expressed an interest in trading. A French grant of Ffr4.5m is financing work by the Paris Bourse to install the ultra-modern software that is shortly to go into service in Paris. The software is designed to guarantee investor confidence and international credibility.

French experts are also assisting Beirut's new clearing house. Midclear, which will clear and settle all accounts.

Mr Sehnaom says investors will also be protected by a government commissioner regulating the market, a disciplinary and arbitration court, a market guarantee fund and new regulations to prevent money laundering. The fact that the bourse wants only corporate entities that have a strong capital base, and are governed hy a code of ethics, to be licensed

participants and securities. From its outset the BSE will

have three markets: sheets which meet high stan-

 A higher risk unlisted securities market in which the BSE would create a trading environment but have no ultimate

the transparency and reporting requirements of the official market would be able to list on the junior market. Within six months of opening. Mr Sehnaoud says, treasury bills will be traded on the BSE

re-open the exchange have been applauded by brokers However, long-term growth in the market will depend on key policy reforms. First, and most urgent say brokers, is amending the 1983 law about huying shares in the banks. A current proposal hefore parllament would allow up to 25 per cent of equity in a bank to be freely traded on the market.

Second, hrokers say the government must demonstrate commitment to privatisation of public utilities. Third, reform of property laws restricting for-eign ownership must be undertaken to encourage foreign participation in publicly traded

Facing the new order As Lebanon pushes ahead with

as brokers should also help.

A comprehensive capital markets law is under consideration and would establish an independent authority with overall responsibility for the organisation, regulation, supervision and control of markets.

 The official market trading blue chip shares of companies with a minimum capital of \$5m and three years of balance dards of transparency and liquidity;

• The junior market for new companies with a minimum capital of \$2m wishing finance for fast development or new

responsibility. Companies that do not meet

The government's efforts to

restricted to one branch by the central bank - but rather by

Roula Khalaf examines the role of the banking sector

a reconstruction project worth more than \$30bn, the country's hanking sector, once a leading recycler of petrodollars, is racing to carve a role for itself in the new order.

Officials no longer speak of the resurrection of Lebanon as a regional banking centre - a role now jointly assumed by Dubai, Bahrain and Cyprus hut of the creation of a regional capital markets cen-

To adapt to the new vision, Lebanon's banks, rare survivors of 16 years of civil war. are facing many challenges. The depreciation of the Lebanese pound during the civil strife eroded the banks' capital hase. In 1993, the central bank allowed hanks to revalue assets if they put up a similar amount of cash into capital. The move proved highly effective and most banks now comply with the Basle Agreement's 8 per cent capital ratio

But now that foreign banks such as ING, Citibank and indosuez are trickling back into the market bringing with them capital, expertise, new technology and access to international markets, Lebanese banks need further infusions of capital. "If the banks want to participate in reconstruction. they have to increase their resources," says François Bassil, head of the Association of Lebanese Banks. "Competition will be fierce between the local

and foreign banks." But so far, raising funds has faced regulatory hurdles, with the central bank requiring prior approval of all new shareholders. A projected law is before parliament to allow 25 per cent of a bank's shares to be sold freely. This should let banks issue shares on the stock exchange, soon to be reopened. Competition is also driving banks to diversify and they no longer rely solely on the system of strict secrecy

and free exchange to attract The foreign banks coming into the market are not attracted by the prospect of retail hanking - and are

the potential of channelling hack some of the estimated \$40bn in Lebanese capital outside the country, as well as attracting foreign funds.

Lehanon's banking sector made up of 79 banks, with 565 branches and total assets of L£25,463bn - has traditionally seen little need to expand its services. The sector is highly profitable with a return on equity of 31.4 per cent versus 11.38 per cent for the world's

first 100 banks. But, due to stiff reserve requirements on Lebanese pound deposits, which make up about 35 per cent of total deposits, and high yields on Treasury-hills, these commercial banks do little more than take deposits and invest in T-bills. Although the banks can lend up to 60 per cent of their dollar deposits, they shy away from assuming long-term risk because the central bank cannot act as a lender of last

resort on dollar deposits. But with \$12bn of deposits in the banking sector, and private investment needs of more than \$20bn, the banking sector will have to play a larger intermediary role and channel investments for reconstruction. Furthermore, the inflow of capital into Lebanon in 1993 and 1994 going mainly into property has tapered off this year as property prices skyrocketed and much of Beirut's new lux-

ury buildings stand empty. Banks two years ago saw no need to expand into capital

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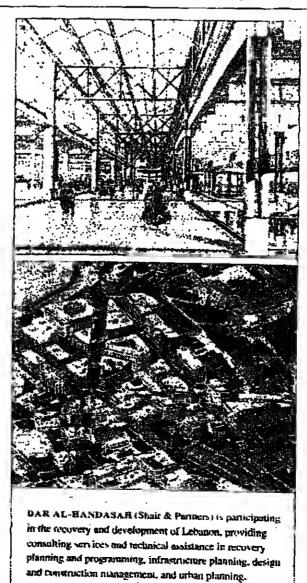
markets or investment hank. ing," says one banker. "But with reconstruction, some banks are realising there is a need to expand, otherwise foreign banks will get all the business." Banks such as Banque du Liban et D'Outre Mer are setting up investment banking subsidiaries while others such as Banque Audi and Banque Saradar are working on corporate finance and equity deals

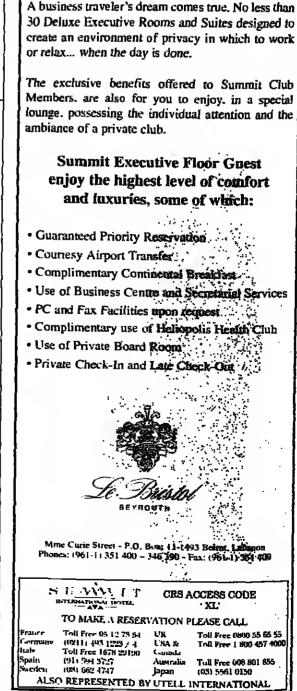
for private sector clients. According to the central bank, four investment banks have been licensed in the past year. "Beirut cannot go back to playing the role of a regional commercial hanking centre," says Nasser Saidi, vice-governor at the central bank, "We need to attract capital and it is hard to do it via banking. We have to raise equity and debt ... and develop capital markets,"

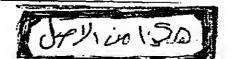
Among the new breed of bankers is Lebanon Invest, an investment bank started in 1994 with \$26m in capital from Gulf and Lebanese shareholders. With the property market inflated, Lehanon Invest is attempting to channel international capital into other, more productive sectors of the economy, says Ziad Makkawi, head of trading, treasury and capital

markets division Meanwhile, the central ban is also attempting to catch up Mr Saidi says the central bank is in the process of defining what hanking system the country wants. "We prefer that banks have separate financial subsidiaries to deal in investment banking," he says.









LEBANON 3

t can still take up to 45 minutes to get through to a telephone number in Beirut and often it's easier to dial London than two miles down the road. For at least eight hours a day the city's residents are without power from the national electricity grid: Roads are often jammed solid with traffic: And the water and sewage systems are literally burst-

ing at the pipes.

Throughout the civil war the Lebanese found creative ways to deal with the destruction of their infrastructure. Most offices and apartment blocks installed diesel generators and the flite bought satellite telephones. An explosion of pri-vate radio stations and street hawkers made traffic jams

slightly more bearable But with the war now over for four years, people are growing impatient with the government's promises to rebuild the country under its ambitious Horizon 2000 public investment programme being implemented by the Council for Reconstruction and Development.

The CDR, which plans to invest \$31bn in reconstruction

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The government is unfazed by public impatience, says Julian Ozanne

Stoic in the face of critics

begun on all the public utilities and multi-million dollar contracts have already been awarded to local and international firms.

The problem is that rehabilitation and reconstruction is a long and complex process -from design, to raising external capital, tendering and finally implementation. Furthermore, many of the projects such as electricity supply are like chains whose full effects will not be felt until the last link is in place.

Nevertheless, the CDR is

confident that the Lebanese changes in public services by next year and that by the end of 1997 most of the horrendous problems will be resolved. In stoic about public criticism.

former President of the CDR. "Of coursa people complain and it is their right to complain. Everybody deserves elec-tricity and clean water and it

is right to put pressure on us." Privately, many CDR officials say criticism is being whipped up and exploited by politicians as a way of attack-ing the government of prime minister Rafik Hariri. Often, the council is treated as a political football in the parliament. The latest criticisms concern

the increasing power of the CDR, which acts like a superministry under the direct control of the prime minister. The decision in February by the minister of posts and telecommunications to transfer management of the rehabilitation of the telephone network to the CDR was a sign of the power of

that it is one of the few government bodies adequately staffed with skilled professionals.

But Mr Chalak, who last month was appointed minister of posts and telecommunications, says the problem lies with the capacity of the ministries, which remain politicised, inefficient, understaffed and

e have the stomach of a mule and the skin of a crocodile," he "We have a national says. responsibility to provide the minimum leval of infrastructure so that the private sector will invest - what moves any economy nowadays is the pri-

The CDR is confident of raising the \$31bn (in constant prices) it plans to spend to the year 2007, most of which will

far been distributed. (Each dis-

tribution goes through an

appeal process by which ten-

ants and landowners argue

The process is a difficult one.

One property, for example, had

1.080 owners and 780 tenants.

all with rights to shares in

Solidere. Tha share distribn-

tion process should take

another 12-18 months to com-

Investors in Solidere, mean-whila, have seen their shares

languish after an initial boost.

Issued at \$100 in the 1993 pub-

over their stakes.)

be spent on infrastructure investment. In the first years it plans to raise most of its capital needs from foreign borrowing in a mixture of commercial loans, foreign currency bonds, suppliers credits and bilateral

Already the CDR has raised \$2.4bn, one third of its requirements for the period 1995-2000 and it dismisses critics who say increasing external debt will become unmanageable.

It also plans to rely increas-ingly on build-operate-transfer deals for projects such as toll roads, including the \$700m Beirut-Damascus Highway, the cellular phone network and free trade enterprise zones.

Another unforeseen obstacle has been the difficulty in expropriating land for road building and for the extension of the airport. This has delayed

lic offering, the shares reached a price of \$173, stabilised about

\$150-\$155 and now trade about

The public offering was

aimed solely at Lebanese and

other Arab investors. Foreign

risk attractive can buy into

warrants on the stock issued

by Paribas and Indosuez. Pari-

bas received the shares it uses

had property rights in the cen-

tral district. Indosuez's Beirut

subsidiary, meanwhile, is an

eligible shareholder in Soli-

priations procead slowly through the courts. Weak institutional capacity in the ministries and low standards among local construction companies have also produced delays. "If there is one thing wa have learnt in four and a half years it is to have patience," says Mr

But the CDR has made solid progress on providing the kind environment needed to make Beirut once again an international or regional business capital. It stresses the advantage it has in rebuilding almost from scratch by being able to introduca the latest technology. In all, the CDR says more than 470 consultancy, construction and supply contracts have been signed since 1991 with a total value of

about \$2.4bn. Areas tackled so far include:

 Telephones: Contracts worth \$509m have been signed with France's Alcatel, Sweden's Ericsson and Siemens of Germany to supply new digital exchanges and to rehabilitate and extend the transmission network, including installing high capacity fibre optic cables and two satellite earth sta-

The plan entails increasing working lines from 300,000 in 1993 to 1.2m by the end of 1996, although the CDR expects a noticeable improvement in service later this year.

The government has also licensed two international-Lebanese joint ventures to run a mobile cellular digital GSM system on a build-operatetransfer basis. Each company has a 10-year concession at the end of which they revert to

investors who find the Solidere Service has begun but demand has so far outstripped supply for the estimated 60,000 lines and the system has been overloaded. The companies expect to make improvements to get the service running properly by August and double the capacity by the end of the dated Contractors Company

• Electricity: In January the government signed a \$536m with the Italian Ansaldo Energia company and Germany's Siemens to build two new 435mw combined-cycle plants, one at Zahrani in the south and the other at Baddawi in the north. The two plants will hava a capacity of 290mw within 18 months from the beginning of construction, 580mw within 20 months and the full 870mw by 1997, adding to an expected 1,100mw after rehabilitation of existing

Rehabilitation of existing power stations and the electrical distribution system should ba completed within months and the government is confident of an end to power rationing by the middle of 1996.

 Transport: Germany's Hochtief, in a joint venture with tha Athens-based Consolihas started a \$387m expansion contract at Beirut airport. including rehabilitation and expansion of the decimated terminal rehabilitation of the east runway and the construction of a new west runway over the sea due to be completed in late 1998. The CDR says the capacity of the airport will be 6m passengers a year by the end of the century compared with traffic of 1.4m last

Work has begun on the development of Beirut port. including the construction of a power station, a quay and roads and the upgrading of the port's infrastructure.

Work is also under way on the repairing of the water and sewerage network and the rebuilding, and developing of 1.262 schools, hospitals and health clinics and government buildings across the country.

Roula Khalaf assesses the controversial plan to rebuild the centre of Beirut

Opposition still finds a voice

In Reirut's war-ravaged town centre, once the heart of the capital, faint signs of life are re-emerging. The destruction has been largely erased by wide-scale demolition. Workers hired by Solidere, the Lebanese Company for the Reconstruc-tion of Beirut Central District, have begun renovating a handful of buildings and laying the foundations for roads and sew-

The creation of a private sector firm - at a time when public funds were scarce - to rebuild the heart of Beirut was shrouded in controversy when it first emerged. The plan - the idea of prime minister Rafio Hariri, long before he took up the helm of the government came to life in 1991 when parliament passed a law effectively forcing landowners and tenants to give up their rights to the land in return for shares

in a public company. Central Beirtit covers more than 100 hectares, and 1,680 property lots. More than 100,000 people have rights in the area as Lebanese law gives tenants the first right of return

ouce a space is rebuilt. The company formed - Solidere - raised \$650m in an oversubscribed public offering in 1993 to pay for infrastructure lots and to resell others. Landowners protested and Solidere's public issue turned into a political dispute. Even the pro-Iranian Hizbollah issued a fativa - or religious edict -

against the purchase of shares. The voices of opposition to Solidere have not completely died down. Questions are often raised about the viability of the project. War has not only disfigured the city but it has also changed its configuration. New areas from Jounish, north of Beirut, to the southern suburbs have emerged as commercial centres.

Whether stores and businesses will move or open a secand branch in the centre once Solidere rebuilds remains to be

The company is counting on the latter. Its plans extend over 160 hectares, including 60 hectares of reclaimed land on the sea front. The area comprises 75 hectares of land for development and 85 hectares of public spaces, roads and religious and

government properties. The most recent plans envisage 1.9m square metres of residential space and 1.5m square metres of office space. The company is planning two marinas, one of which will house 750 boats. Inhabitants are expected to number 45,000. with another 110,000 employees

Officials at Solidere say the plans are realistic. They insist the company can adapt to changes

and 150,000 visitors.

Mr Hariri's vision to bring back Lebanon's former glory as a regional centre is at the heart of the project and its success or failure will be Mr Hari-

ri's legacy.
Officials at Solidere say the lans are realistic. They insist the company can adapt to changes in the country and to demand. Solidere, which has a company life of 25 years, says maintains that plans can be adapted if less than the projected amount of office or resi-

dential space is needed. "We can study demand around us and adapt every year," says Pierre Edde, a project manager. Before the war, Beirut was the only magnet in the Middle East," says Nouhad Makdissi, manager of financial evaluation and reporting. There is now room for more than one magnet and we will be one of them.

To architectural critics, Soli-dere says it is demolishing 642 buildings and restoring 265. Surviving buildings can be recuperated by owners willing to pay 10 per cent of the appraised value of the buildings, buy out other owners of

the building and restore the structures in accordance with Solidere's urban planning A \$475m contract with the

state to rebuild the infrastructure means Solidere can finally start work. Payment is in the form of reclaimed land on the sea front.

The \$63.7m contract for the first phase of the infrastructure work was awarded to the Lebanese-Italian joint venture, Klat and Maouad and Consorzio Co-operative Costruzioni. This phase - including the building of primary and secondary road networks, sewerage, water drainage, tunnels and civil works for electricity and communications networks is expected to be completed

in three years. Work has bagun on the reclaimed area - which accounts for a third of Solidere's total surface - to treat the 20-metre-high dump of waste and debris and to create sea front protection. The reclaimed area project is the most expensive for Solidere,

likely to cost about \$300m. The rest of the \$650m funds raised in the public offering will go into recreating tha traditional souks, restoring buildings and finalising the infrastructure works.

land to other developers. The company says it is in discus sion with two groups to build a 200-room hotel and is being approached by foreign companies wishing to reopen regional offices in central Beirut.

Although rebuilding of the centre has started, Solidere has yet to hand out all the shares in the company to shareholders who were landowners or was capitalised at \$1.8bn, \$650m of which represents B shares issued in the public offering. The rest, constituting 11.9m A shares, is being divided between tenants and landowners. About 3m of these shares represent properties

that can be recuperated Out of the 8m shares remain



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LEBANON 4

Lasting regional peace is crucial to the rebirth of a market economy, says David Gardner

A chance to breathe again

The resumption of peace talks between Israel and Syria, due this month, was nowhere received with greater welcome than in Lebanon, which over the past 20 years has had its destiny shaped by these two powerful neighbours fighting out their battles on Lebanese

A successful Syrian-Israeli accord would enable Lebanon to reclaim the Israeli-occupied "security zone" amounting to nearly 10 per cent of its southern territory, and would make it harder for Syria to justify keeping 35,000 troops sta-tioned inside Lebanon. For the first time since civil war broke out in 1975, Lebanon would get a chance to breathe.

The violent particularisms of Lebanon's 17 communities have always tempted regional and outside forces to use the country as a proxy battle-ground by fanning the amhitions of their local allies, and never with more devastating effects than in the 1975-90 civil In 1976. Syria waded in to

prevent the Maronite Christians being defeated by an alliance of the Palestine Liberation Organisation (PLO) and the predominantly Moslem Lebanese Left. Damascus has held most of the Lebanese ring ever since. In 1982, Israel launched its

deepest and most adventurist invasion into Lebanon. The PLO was forced out of Leba-non, but by 1985, under attrition from Shi'ite Moslem militias, Israel withdrew to the "security zone", where it operates on the ground primarily through its client South Lebanese Army (SLA) militia.

Under the 1989 Taif agreement to end the civil war. Syria, which entered Lebanon under the cover of an Arab League mandate, should by now have withdrawn its troops to the Bekaa valley, adjoining its border.

Equally, under UN Security Council resolution 425, passed in response to an earlier Israeli invasion of Lebanon, Israel should have pulled out and restored the "security zone" to Lebanon's still somewhat notional sovereignty. None of this has happened. In spite of some 15 meetings

with Israel since the 1991 Madrid peace talks on the Middle East, Lebanon by itself has got no closer to detente with its southern neighbour. Israel has been seeking a separate peace with Lebanon for the past 15 years, but even if it wished to, the Lebanese government is in no position to break ranks

The government regards Israeli compliance with UN SCR 425 as the indispensable prelude to any peace overtures. Israel demands that Beirut demonstrate its ability to guarantee security in the south by closing down Hizbollah, the Shi'ite fundamentalist militia.

Hizhollah, created after

Israel's 1982 invasion, with Iranian backing and Syrian blessing, unleashed a new offensive against the Israeli occupation this year, following the breakdown in Syrian-Israeli negotiations last December. The Beirut government, with Syrian

strong national army, partly support, has disarmed all the civil war militias except Hizbollah, which has acquired the prestige of a national resistance movament, endorsed by the government, and enjoying a degree of cross-confessional We still have an interest in

sympathy. Fares Bouez, the Lebanese foreign minister, complains of Israel that "they are asking us to have a confrontation with the resistance at a time when we have no guarantees we'll get the land back. We need a guarantee to show to these people when we tell them to country There is little question that

Israel assumes, realistically. that only namascus is in a position to tell Hizbollah when to stop. Mr Bouez himself says we know we'll never get [compliance with UN security council resolution] 425 before they [Israel] reach an agreement with the Syrians".

Israel needs to reach terms with Syria to ensure that the Hizbollah onslaught on its northern border stops. But Lebanon too, even though it has reconstructed a 53,000-

absorbed from the disbanded civil war militias, needs Syria to rein in Hizbollah if peace

having the Syrians dealing with Hizbollah because of their relationship with them," says Mr Bouez, who asserts in the next breath that "the day a [peace] agreement is reached" involving all three countries. "there will be no justification for anybody but the Lebanese army to maintain order in this

Lebanon will remain in the Syrian orbit for some time to come, but the extent to which Syriz is coming to depend on Lebenon should not be underestimated. For Syria, too, is in transi-

tion. Its strategic choice of peace is in part dictated by its imperative need to overhaul and open up its failing command economy, which no longer has the external prop of the ex-Soviet Union.

In this, it will need not only

Linked with Lebanon: Hafez al-Assad, the Syrian president

"peace dividend" of financial aid from the US, but the window to the world and the markets that are provided by Leba-

"We are under Syrian domination, but that's not the whole truth. The future of Syria is linked to what is happening in Lebanon," says Samir Franjeih, political adviser to Rafiq Hariri, the Lebanese prime minister. A resurgent Beirut - recon-

but as a capital market and financial services centre channelling funds into an Arab world concerned more with its economic development than the struggle with Israel could prove decisive for Syrian reform. reform.

Nasser Saidt, deputy governor of the Bank of Lebanon
says: "Beirut could be uniquely

stituted not so much as the

pre-war banking centre channeling Arab funds to the wes

poised to play that role and be the provider of financial

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Carriots show seen

Lebanese companies are already setting up joint ven-tures in Syria, Which, according to Bank of Lebanon governor Riad Salame, has drawn in \$4bn since it started allowing private investment in its public sector. And once the Benry bourse opens in the next few months it will be the natural place for Syria to float compames it wishes to privatise, and for Syrian companies to be listed and issue debt and

But beace, allowing Lebanon and its natural entrepreneurs to live in symbiosis with its neighbours, is the key.

"We can just see the start of a movement towards a market economy" in Syria, says Mr Salame, "but peace would greatly accelerate that".

our years after the end of the war, and with the prospect of a lasting peace emerging, Lebanon, led by prime minister Rafiq Hariri, has great ambitions for its revival. Rebuilding, bowever, will require more than clearing out the rubble, erecting high-rise huildings and designing offices, while creating a financial market will take more than establishing regulations for a stock exchange, a bond market and a securities watchdog. What is most

needed is people. Statistics on Lebanese migration vary. During the 16 years of civil war, between 800,000 and 1m Lebanese left the country, according to the Lebanese ministry of emigration.

Kamal Hamdan, an economist at the independent Consultation & Research Institute, estimates that between 1975 and 1990, the net balance of migration was about 550,000 people, 40 per cent of whom were considered among the active population, who sought work mainly in Gulf countries. Many others were students. who went to pursue their Reversing Lebanon's brain drain

Potential source of strength

studies in Europe and the US. Reda Wahid, the former minister of emigration does not helieve that the Lebanese are returning. "Those who find jobs outside stay," be says. "You need to look at this situation psychologically. Can one leave a job with its benefits and security and come bere? No one is coming back - only those who left with their children, they come back but the

children don't." The end of the war bas hrought security but peace has yet to translate into economic benefits and create an attractive environment for the Lebanese expatriate community. Years of byperinflation and static wages have eroded the middle class's purchasing power. Average monthly salaries in Lehanese hanks do not exceed \$500, at a time when rent in a decent three-bedroom family dwelling in the capital city can cost up to \$1,500 a

Returning Lebanese professlonals therefore work for a family business, have sufficient capital to start up on their own or are sent by foreign hanks re-opening their offices in Beirut and thus paid London or New York salaries,

The return of foreign banks, however, is forcing their Lebanese counterparts to increase their own salaries in order to attract talent from outside. Most professional employees at Lebanon Invest, a one-year old investment bank, were hired away from investment banks in Europe and the US.

Solidere, the company for the reconstruction of the downtown Beirut district is also contributing to the raising of salary levels by paying an estimated \$2,000 a month to MBA graduates from western universities who have a few

years of experience. The brain drain will be a major source of strength," says Abdul Hafiz Mansour, deputy general manager at Solidere. Once there is the prospect of work, they will come back."

But as Lebanon's private sector attempts to lure back the diaspora, some Lebanese are still leaving the country, some in search of a more prosperous life. Others - Christians in particular - leave because they feel they have lost out during the war.

"People want to leave but not many can because of the economic crisis in the Gulf." says Mr Hamdan. "But if there is no process to rehuild the middle class, socially and economically, people will not come back, especially not the

Roula Khalaf

Julian Ozanne looks at the country's huge public debt undertaking

Ambitious but feasible

At the beart of Lebanon's reconstruction programme is a massive public deht undertaking which aims to raise about \$31bn over the next 13 years to finance rebabilitation of infrastructure and to meet budget

deficits. In the face of mounting criticism about mortgaging Lebanon's future and incurring burdensome indebtedness the government bas designed a debt strategy for the 1995-2007 period which it argues is mangeable and in line with the indebtedness of countries such as Jordan and Belgium.

Of the \$31bn (In constant prices) the government plans to raise for the reconstruction programme known as Horizon 2000, \$22,2bn is earmarked for public investment expenditures and \$8.8bn is to meet debt repayment obligations and current budget deficits

The strategy assumes that deficit will be balanced by 1999 as a result of strict fiscal discipline and a growing revenue base and that budget surpluses from the year 2000 will become the main source of financing public investment as well as servicing debt. The government projects budget surpluses before investment will increase to more the return of up to 600,000 peo than 8 per cent of gross domestic product by 2007 and will provide \$12.1bn, 69 per cent of the \$17.6bn of finance needed for the period 2001-2007.

In the meantime, and to prevent crowding out the domestic private sector, the govern

ple displaced by the civil war and Israel's occupation of part of Sonthern Lebanon and to expand the electricity network.

raised \$2.4bn of foreign finance (excluding \$300m spent before

	me third of			
n current prices)				
1995-2000	2001-2007	1995-2007		
0.3 (2%) 8.2 (81%) 4.7 (35%) 0.2 (2%) 13.4 (100%)	3.0 (17%) 2.5 (14%) 12.1 (69%) 17.6 (100%)	0.3 (1%) 11.2 (38%) 7.2 (23%) 12.3 (40%) 31.0 (100%)		

Source: Copined for Development and Reconstruction

ment will heavily rely on foreign borrowing raising about 61 per cent or \$8.2bn of the \$13.4hn needed between 1995-2000 on international capital markets.

Foreign capital grants

Current budget surplu

Foreign barrowing

Following last year's highly successful \$400m Eurobond issue the government intends to raise a further \$2.2bn in foreign currency bonds in the next 12 years. Parliament has already authorised the government to issue \$968m of foreign currency bonds, including last year's Eurohonds, to finance rebuilding the Beirut suburbs and railway system, to fund

ments for the period 1995-2000 and has a further \$400m under negotiation. Among the sources of finance so far are the World Bank, European Investment Bank, the Kuwaiti Fund, the Arab Fund and the Italian government.

retary of the Council for Development and Reconstruction. the super-ministry implementing the reconstruction programme, says that another advantage of foreign borrowing is that the government can secure better terms than in the

of foreign debt to date, he says, are favourable with a nominal interest rate of 6.7 per cent a year, 16 years maturity includmg 4.8 years grace on capital. repayments. The government had assumed less favourable terms for Horizon 2000 of 7 per cent annual interest and 14 years maturity including four years' grace.

The combined average terms

Total domestic and foreign deht will peak in 2003 or 2004 at about \$30bn. But assuming GDP growth of 8 per cent a year, Mr Barroudi says total debt stock as a percentage of GDP will peak in 1999 at 91 per cent and fall to 42 per cent of GDP by the year 2007. Foreign debt stock as a percentage of GDP will reach a maximum of 42 per cent in 2000 falling progressively to 13 per cent in 2007. Debt service as a percentage of GDP will never be higher than 10 per cent and

will fall to 6 per cent in 2007. ment during the period 1996-2007 is expected to reach

Economists say the debi strategy is ambitious but feasible providing the assumptions turn out to be true: an 8 per cent growth rate per year and success on the fiscal front.

LEBANON INVESTMENT DEVELOPMENT AUTHORITY

The Lebanese Investment Development Authority (LIDA) was created by a council of Ministers decree on December 1, 1994. LIDA is authorised to oversee, create, facilitate and implement foreign investment projects in Lebanon, regardless of size. In order to insure its expediency, LIDA will liaise at the Ministerial level and report directly to the Prime Minister. This structure has been created especially to ensure the potential foreign investor speedy access to information, decision-making and implementation assistance.

The Board of Directors of LIDA is comprised of promintent members of the Lebanese business community representing the most interesting sectors to the foreign investment community, namely the financial, infrastructural and touristic.

The core of the Agency is its data bank of information available to the potential investor. LIDA offers the foreign investor a complete and current list of suitable opportunities in all sectors of the economy ranging from agricultural to infrastructural projects. Information on the general economy, taxation, customs, as well as legal concerns and obligations is also available. LIDA's staff and consultants are of the highest calibre. In addition to being multilingual, every staff member has domestic and international experience.

The role of LIDA is not only to provide all possible information required by the potential investor but to guide the investor through all stages of the process from the initial research and appraisal to implementation. Additionally, LIDA is authorised to participate in certain types of projects with the foreign community on a joint-venture basis.

LIDA offers investors the following services:

- A data base on all potential projects.
- Introductions to all relevant parties in both the private and public sectors.
- Technical assistance with industrial projects including site location.
- · Legal advice on correct submission of applications. procedures and other formalities.
- Funding advice, referral and participation.
- · Implementation and follow-up on a permanent basis.

For further information, contact LIDA at the following: Dr. Youssef Choucair, Chairman, General Manager, The Lebanese Investment Development Authority, Prime Minister's Office, Sanayeh, Beirut. Phones: (961-1) 34824117, 862006, (961-3) 726060 Fax: (961-1) 602 023 - 867 153

Lebanon in brief: key facts

Population and area

Population: 2.84m 1992 UN estimate)

and area (sq km): 10,452

Capital and main

Population in 000s (1991) Beirut	
Beirut	1.50
TripoliZahle	20
Zahle	3
Sidon	10
Tyre	7

■ Economics

GDP growth of 8-8.5 per cent is forecast for 1995 and 1996. The annual inflation rate, which reached more than 100 per cent in Lebanese pound terms in 1992, has been restricted by the imposition of high interest rates and stabilisation of the currency, which actually appreciated by 3.7 per cent against the US dollar during

Banque Audi's latest estimate puts inflation in 1994 at 12.05 per cent in pound terms and 16.37 per cent in dollar

Discount rates bave fallen from their 1992-93 peak of 24-37 per cent to 13.6 per cent in the first quarter of 1995, while Treasury bill rates have remained about 16-18 per cent for the past two years.

Exports remain weak, representing less than 15 per cent of GDP. The General Directorate of Industry gives a figure of \$379m for the whole of 1994. The IMF's Direction of Trade Statistics gives a figure for the first three quarters of 1994 of about \$530m, which would indicate a 12-month total of some Banque Audi estimates

meanwhile, point to a 1994 total of \$1.16bn. This compares with a World Bank figure of \$1.13bn m 1993. Imports, according to

increase of nearly 19 per cent over 1993. The trade deficit in 1994 consequently appears to have totalled \$4.64bn and is likely to be higher still in 1995.

Currency

Currency: Lebanese pound £1=L£2609.39; \$1=L£1630.00; DM1=L£1188.83; Y100=L£1936.79

The Lebanese pound is a freely convertible currency. In April 1973 "mobile temporary parity" dollar and other currencies was adopted for calculating taxes and other fees linked to foreign currencies. This was the average base rate on the Beirut money market during the previous calendar month.

ears (L£3.10:\$1), dipped still further in 1977, but showed surprising resilience hefore reaching L£5.26:\$1 in November 1983. In 1984 the currency fell sharply and the slide has continued ever since. In September 1990 the rate had fallen to L£1,200:\$1 as a result of the onset of the Gulf crisis, and

On June 1, 1976, the pound

fell to its lowest level in five

support operations and the value of the pound again had By early May the rate had fallen through the L£2,000:\$1

then in February 1992 the cen-

tral bank ceased its currency

The currency rallied in late 1992, however, after the appointment of the Hariri cahinet, and has steadily appreci-ated, reaching the L£1,695:\$1 mark at the end of the first quarter of 1994.

Languages

Arabic, English and French are widely spoken.

Ethnic make-up

The Lebanese belong to a single ethnic grouping, Levanto Arab, which encompasses the Banque Audi's estimate, based people of the Levant coast on customs dues collected, from northern Syria to southern Palestine. Also settled in Lebanon are small num. bers of people from different ethnic stock, notably Armenians and Kurds, the latter being stateless. No full census has been attempted since 1932.

Entry/visa requirements

All visitors must be in posses sion of passports except certain nationals of neighbouring states. Visas are required for all, with isolated exceptions. Entry is prohibited to Israeli nationals.

Banking and business hours

Covernment offices: summer 0800-1300. Monday-Saturday: urday: Business houses: summer

0800-1300, Monday-Saturday vinter: 0830-1300 and 1500-1800, Monday-Friday Banks: 0830-1400, Monday-Fri-day. 0830-1400, Saturday.

Lebanon Towards 2000

Today sees the opening of the Lebanon Towards 2000 exhibition by Rafik Hairi, the Lebanese prime minister. The exhibition, which is tak

ing place at the Rashid Kamari Lehanon International Fairgrounds, Tripoli, will run until

Sources: EIU country profile 1994-95; Wolden Country Reports; FT World Hotel Direc-

June 10.

BEIRUT CITY EXHIBITION CENTER Martyrs' Square International Fairs & Promotions, SARL. PO Box 55576 Beirut Lebano

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